

*John Hutton*

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# Fairness, Funding and Our Collective Future

A way forward for post-secondary  
education in Nova Scotia

Kaley Kennedy, Christine Saulnier,  
James Sawler, and Leanne MacMillan



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**Fairness, Funding and Our Collective Future:  
A way forward for post-secondary education  
in Nova Scotia**

By Kaley Kennedy, Christine Saulnier,  
James Sawler, and Leanne MacMillan

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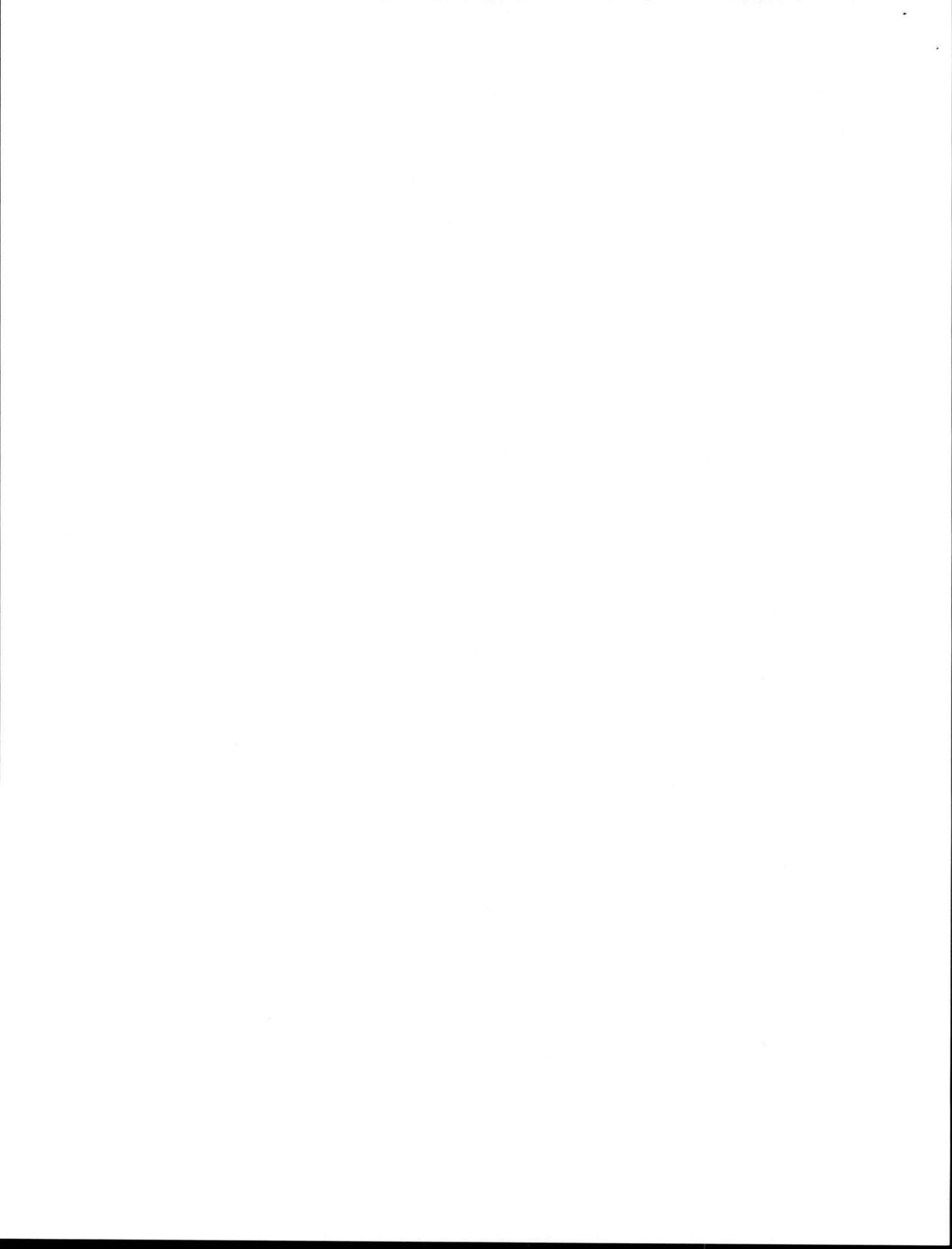
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# Executive Summary

## Post-Secondary Education is an Asset

The post-secondary education system in Nova Scotia (made up of 11 universities and 13 college campuses) is an asset for our collective future, which we cannot afford to undervalue. Over **70,000 students** are enrolled in the system. Universities in Nova Scotia contribute **\$1.18 billion dollars** to the Nova Scotia economy annually. Universities account for **18,518 jobs** in the province, most of which are full time, full year. University employees alone contribute **\$220 million dollars** into government revenue every year. In addition, over **6,700 jobs** totalling over **\$202 million in wages and salaries** can be directly attributable to the Nova Scotia Community College (NSCC). The Nova Scotia government needs to take a different approach to the post-secondary education sector given the demographic pressures that exist (slow population growth, aging population, and youth out-migration) and because of the substantial rate of return from this sector. The concentration of post-secondary institutes uniquely positions Nova Scotia to deliver not just workers, but good jobs, in an increasingly knowledge-based economy.

The government should not cut funding to this sector as a way to deal with the problems in the system or/and as a way to deal with the government's fiscal problems. Rather, it should seek to improve its fiscal situation with a focus on ways to invest in a sector with high economic and social returns, to enhance productivity and increase government revenue. The market-oriented, utilitarian approach of the recent review of the university system entitled *The Report on the University System in Nova Scotia* ["The O'Neill Report"] will not produce these results.

Unlike Dr. Tim O'Neill, the author of the government commissioned report, the authors of this report take cold comfort in the fact that while tuition fees more than tripled in Nova Scotia in constant dollars from 1990 and 2007, university enrolment did not decline. When approaching decisions about tuition fee levels, we should stop and consider the full implications of high tuition fees. Tuition fees cannot continue to rise indefinitely without negatively affecting access, even with redistributive grant programs in place. Instead of trying to determine what a sustainable debt load might be for an individual

student, we should consider how to fund post-secondary education in an equitable and fair way.

We oppose taking a market-oriented, utilitarian approach to this system and instead forefront issues of access, equity, and quality to consider the future of the system. Any changes to the system should build on its current strengths as a public good and not simply for private interest. We make recommendations for the future of a post-secondary system that seeks to democratize post-secondary education and protect our public interest for our collective future. To this end, our first recommendation is:

***Shelve the O'Neill Report: The government should not implement the O'Neill report recommendations because to do so is to risk creating or exacerbating the very problems for which it purports to offer solutions, and would result in an inaccessible, weakened post-secondary education system.***

**Report Layout:** This report is divided in three main sections. The first section of the report outlines the need to expand the public investment in post-secondary education substantially. The second section makes recommendations regarding the concerning trends in the sector where in private interests risk undermining the accessibility, equity and quality of the system. The third section outlines specific recommendations to ensure that there is more public accountability and transparency and make sure funding is used as fairly, effectively and efficiently as possible.

## Section 1: Significant Social Benefits Justify Additional Public Investment

The O'Neill Report discusses at great length various considerations for choosing the appropriate level of public funding for the university system, but offers only vague recommendations or guiding principles. In the short term, The O'Neill report accepts public funding will inevitably decrease and suggests the government should allow tuition fees to rise, if not be deregulated completely, to enable universities to make up (some of) the shortfall in funding.

We argue, however, that when the government determines the appropriate level of funding to public post-secondary education, it should consider the full costs and benefits of this investment. As a general principle flowing from a cost-benefit analysis, as long as the extra benefit of providing more of the activity exceeds the extra cost, the government should increase its subsidy to provide more of the activity. This will occur when there are social benefits beyond those that accrue to private individuals. Instead of comparing the individual benefits to the costs, when developing public policy, we must include the social benefits as well. The greater the social benefits, the greater should be the public investment.

According to our estimates, it is not justifiable to cut funding to this sector and allow tuition fees to rise thus downloading more costs onto individuals. The total cost to students of obtaining a university education is roughly \$26,000 per year. This is almost three times as great as the government contribution of \$9,509 per student per year. In addition, the nonmarket social benefits are substantial and include improved health (and corresponding lower public health bills), improved labour market search efficiency, greater civic engagement, less social inequality, and lower crime rates.

***Equitable Division of Costs and Investment: In order to protect the invaluable social benefits of post-secondary education, the public***

**investment in university education should be roughly equal to the private investment made by students. Students currently contribute three times more than the government.**

### Section 2: Eroding a Public Good For Private Interest? Post-Secondary Education In the 21<sup>st</sup> Century

The government needs to develop policies to prevent the erosion of this common good by addressing the increased privatization and marketization. Privatization includes universities increased reliance on tuition fees to cover costs and part of this trend is an increase in international student enrolment and fees. However, gouging citizens of other countries financially in order to benefit local students is not a fair or sustainable approach.

***International Student Fee Differential:* The provincial government should ensure that decreasing or eliminating fee differentials for international students are part of a discussion of a comprehensive system-wide tuition fee/recruitment strategy.**

Another form of privatization is the increasing reliance on private donations by individuals or private companies. There are troubling trends that have accompanied this reliance including a bias toward buildings for professional programs and increasing amount of university resources being used to fund-raise. We should protect university and college campuses as public infrastructure.

***University Infrastructure Should Remain Public:* Capital investment should not involve public-private partnerships, and should consider how to maximize the broader community use of university facilities as public infrastructure.**

Privatization is also creeping into academic research. The commercialization of research has

particular implications for academic freedom, which should be protected as social good in itself.

***Guidelines for Commercialization of Research:* Guidelines should be developed in consultation with stakeholders about the nature of commercial research undertakings to ensure that scientific progress and academic freedom is protected.**

***Support Research Centres of Excellence:* Instead of encouraging universities to privatize their research endeavours, they should be supported to further develop centres of excellence in research that already exist with additional public funding also directed to encourage the development of other centres.**

### Section 3: Negotiating the Future of Affordable, Accessible Post-Secondary Education

As the negotiations for the current Memorandum of Understanding (MOU) get underway, it is important to consider who is involved and what will guide the negotiations.

***MOU Negotiators:* Upcoming Memorandum of Understanding negotiations must include representation from students, staff, and faculty. The government must meaningfully consult with all these stakeholders when making policy changes, or decisions regarding funding and tuition fees and when setting policy and directions for post-secondary education.**

#### **Student Financial Assistance:**

##### **From Rebate to Grant without Debt-Cap**

Financial assistance to students need to be reprioritized away from tax credits and debt-caps to up-front grants. A corner-stone of the government's financial assistance to students is the Graduate Retention Rebate, which is a tax credit. Research shows that such tax credits are an ineffective use of public money. For students

who need the financial assistance the most, the money does not arrive when it is needed the most – when they are studying. In addition, higher income families get more benefits and therefore it is an inequitable program.

***From Back-End Tax Credit to Up-Front Grant:*** The government should reinvest the money from the Graduate Retention Rebate into up-front grants.

***Debt Relief for Current Students in Repayment:*** Direct the \$8.1 million in the debt cap to offer debt relief to students who are currently repaying their loans including programs to forgive debt, provide additional repayment assistance or eliminating interest on student loans.

#### **Lower Tuition Fees:**

##### **A Question of Fairness and Equity**

While we make recommendations to ensure that student financial assistance is more cost-effective and to improve the options available for students who are in financial need, we ultimately advocate a move away from costly bureaucratic programs that maintain high up-front costs for post-secondary education.

***Affordable Tuition Fees, and Stable Funding:*** The determination of overall public funding, as well as appropriate proportions to individual universities must allow institutions some security and ability to plan, maintain education quality and make tuition fees more affordable.

##### **Finding Efficiencies, Guided by Principles**

Reprioritizing public funding in ways that are more effective is also more cost-efficient. There are other ways to save money as well. We put to rest the idea that institutional mergers can save money. We take a system-wide approach to make recommendations that would deal with the zero-sum game of competing for domestic students, and to ensure that universities can focus

resources where they would have the greatest impact on quality of education.

***No academic or student support services should be outsourced:*** Universities should not be permitted to outsource academic and student support services to for-profit companies. An assessment of already outsourced services should consider whether they could be brought back into the internal operations of universities or contracted-in if it would decrease costs, if they are revenue-generating or/and if there are concerns about quality.

***Common Recruitment, Application and Admissions System:*** Set up a common recruitment, application and admissions system for the province of Nova Scotia, operating on a cost-recovery or revenue-generating system by the provincial government.

***Planning More Efficiencies:*** Universities are encouraged to find additional efficiencies in the provision of goods and services through Interuniversity Services Inc. A review of pension, as well as health and welfare benefits should be undertaken to determine the costs of consolidating them into a province-wide system as either part of the public service or stand-alone system. Stakeholders should be fully consulted and oversee the further development of shared services and must observe collective agreements.

***Board of Governors Diverse Membership:*** University Board of Governors should have a balance of interests including fair representation of the diversity of university stakeholders (various student groups, faculty representation, staff representation). In addition, the Board should reflect broader public values and community representation drawn from various sectors, and not just dominated by business interests.



**Standard Financial Reporting:** The government should establish standard financial reporting procedures for universities, and university financial documents should be released to the public as with other public expenditures.

**Ensure universities use public funds efficiently and effectively:** The government, in consultation with universities, and organizations representing students, staff, and faculty, develop regulations on the use of public funds and user fees collected by the university. We recommend the following:

Funding regulations should stipulate appropriate percentages of operating budgets that universities must devote to instruction and to research.

Funding regulations should include provisions not permitting universities to use public money for fundraising, lobbying or to establish public-private partnerships.

Management audits should be conducted at each university in order to attain an effective balance between monies allocated to senior management positions and the provision of front-line services.

**Enrolment Bands for Funding Determination:** To stabilize funding to individual universities, we recommend adopting a system that considers appropriate enrolment bands (upper to lower preferred institution size considering program capacity). Funding would only decrease if enrolment falls below the range, but institutions would not be rewarded if they exceed the range.

**Income Tax Reform:** The government should undertake income tax reform to make the system more progressive. This is the most appropriate manner to achieve more equitable financing for post-secondary education.

**Increase enrolment of under-represented groups:** The government should increase funding to programs that have successfully increased enrolment of under-represented groups and target funding to the development of new programs based on those successful models.

**Better Integration of NSCC and Universities:** The coordination between the community college system and universities should be increased and strengthened. There is room to improve credit transferability and ensure that colleges continue to be accessible and affordable.

**Integrate Life-Long Learning and Adult Basic Education:** We underline the importance of life-long learning and skills training for re-training and recommend its closer integration with adult basic education programs. A strategy to increase the number of adults (older than the main cohort) participating in post-secondary education needs to be developed.

**Incentive to International Students:** Upon arriving in Canada, international students should be eligible for Medical Services Insurance (MSI) provided by the government of Nova Scotia.

**Increase Services for International Students:** More services are required for international students especially if enrolment is to increase. Public resources must be allocated for sufficient English-Second-Language services and other services required to support international university students. Such services should be provided on campus and in-partnership with the NSCC.

**International Student Recruitment:** International students should figure into the province's immigration strategy in order to improve their retention rate.

## Post-Secondary Education: An Asset to Nova Scotia

The importance of the postsecondary education system in Nova Scotia cannot be overstated. There are 11 universities and 13 Nova Scotia Community College (NSCC) campuses across the province. In 2009/2010, there were over 42,000 full- and part-time students enrolled at universities in the province<sup>1</sup> and over 10,000 full-time and 18,000 part-time students at the NSCC.<sup>2</sup> The concentration of post-secondary institutes uniquely positions Nova Scotia to deliver not just workers, but good jobs, in an increasingly knowledge-based economy.

Universities and colleges generate a substantial return on investment of public dollars. A recent report on the economic impact of universities in Atlantic Canada found that universities in Nova Scotia contribute **\$1.18 billion dollars** to the Nova Scotia economy annually.<sup>3</sup> The report found the economic impact of universities to include the following:

- The Nova Scotia and federal government collect hundreds of millions of dollars of income tax revenue from those employed by universities. In 2008, this amounted to **\$220 million per year**.

- Universities in Nova Scotia account for **18,518 jobs**, which includes people directly employed by the university and indirect jobs. For each job created by the university, another job is created somewhere else in the economy. In addition, most of the jobs created by the university are **full year, full time**.
- The NSCC also makes a significant contribution to our province. It has economic development explicitly as part of its mission: "Building Nova Scotia's economy and quality of life through education and innovation." In 2004, over **6,700 jobs** totalling over \$202 million in wages and salaries were directly attributable to the NSCC.<sup>4</sup>

Undeniably, an educated population raises an economy's overall productivity. The non-market social benefits are also significant when we consider all of the research associating higher levels of education with positive outcomes including a healthier populous that is more civically engaged.<sup>5</sup>

The post-secondary education system is an asset for our collective future, not a liability, as

was suggested in a recent review of the university system in Nova Scotia. The *Report on the University System in Nova Scotia* ["The O'Neill Report"] commissioned by the NDP government and written by former Bank of Montreal Executive Vice President and Chief Economist, Dr. Tim O'Neill was released in September 2010.<sup>6</sup> The O'Neill Report focuses its recommendations on how to make the university system more competitive and sustainable.<sup>7</sup> (It is important to note that the government did not ask Dr. O'Neill to include the college system in his review).

The major focus of future collaborations between the provincial government and the universities, according to The O'Neill Report, should focus on how "to manage growing financial pressures and looming system over-capacity in the face of anticipated enrolment declines."<sup>8</sup> The O'Neill Report accepts that enrolment declines are inevitable and that less public funding to this sector is the only sustainable scenario. To make up for the decline, it advocates an increase in privatization in all its myriad forms, including an increase in revenue collected from tuition fees. Higher tuition fees are justified by reducing the value of post-secondary education to a credential that provides an economic premium for its holder.

The NDP government has signalled that it has accepted the central assumptions made in The O'Neill Report, and will use them to justify its vision of the way forward for the university system. In February 2011, the NDP government announced a four percent cut to the system for 2011–12.<sup>9</sup> The NDP accompanied this cut with the removal of the tuition freeze, and replaced it with a three percent cap. While changes are needed in the post-secondary system, they will not come about by imposing an arbitrary cut in funding or by allowing tuition fees to increase and remain high. These funding cuts come at a time when universities have had to deal with significant losses in endowment and pensions funds due to the market downturn. In addition,

the universities have never recovered from the deep federal government funding cuts they experienced in the late 1990s, which resulted in hiring freezes and other decisions that inevitably affect the quality of education universities can provide. Protecting the further erosion of education quality and access should be the primary goals of any changes to the system.

We cannot deny that Nova Scotia's slow population growth, aging population, and youth out-migration, have serious implications for university enrolment. It is also clear, however, that Nova Scotia faces a significant labour shortage in the immediate and long-term future. The government's *jobsHere* strategy estimates that the province will lose about 20,000 workers in the next four years alone.<sup>10</sup> Our universities and the NSCC could be a key component used to attract and retain workers. We know, for example, that graduates from the NSCC are very likely to stay in the county of their campus following completion of their diploma program. However, we cannot continue to underfund and undervalue the contributions made by universities and the NSCC to attract, and train potential works, and continue to expect them to be able to do so.

The Nova Scotia government needs to take a different approach to this sector given the demographic pressures that exist and because of the substantial rate of return from this sector. To implement the O'Neill Report's recommendations will create or exacerbate the very problems (including those related to enrolment) that it purports to solve, and would result in an inaccessible, weakened post-secondary education system. The government should not cut funding to this sector as a way to deal with the problems in the sector or/and as a way to deal with the government's fiscal problems. Rather, it should seek to improve its fiscal situation with a focus on ways to invest in a sector with high economic and social returns, to enhance productivity and increase government revenue. The market-ori-

ented, utilitarian approach of The O'Neill Report will not produce these results.

***Recommendation: The government should shelve The O'Neill Report and not implement its recommendations.***

There is a need to democratize post-secondary education and protect our public interest for our collective future. Unlike Dr. O'Neill, we take

cold comfort in the fact that while tuition fees more than tripled in Nova Scotia in constant dollars from 1990 to 2007, university enrolment did not decline. Our report forefronts issues of access, equity, and quality to consider the future of the system. There is a need to make changes that build on the current strengths of the Nova Scotia post-secondary education system as a public good and not simply for private interest.

## The Right Kind of Spill-Over: Knowledge, Productivity and an Educated Citizenry

The O'Neill Report discusses at great length various considerations for choosing the appropriate level of public funding for the university system, but offers only vague recommendations or guiding principles. In the short term, the report accepts as inevitable that public funding will decrease because funding decisions are based on "the degree and pace of overall fiscal restraint that the government chooses to implement." As Dr. O'Neill points out, "the university system will be one of many sectors that will face the prospect of either outright reductions or significant slowing in the pace of government transfers."<sup>11</sup> The O'Neill Report offers no other rationale for a reduction in public funding except to say that the NDP government has decided not to increase funding to universities or even maintain current funding levels. Accordingly, O'Neill suggests the government should allow tuition fees to rise, if not be deregulated completely, to enable universities to make up (some of) the shortfall in funding.

When the government determines the appropriate level of funding to public post-secondary education, it should consider the full costs and benefits of this investment. As a general principle flowing from a cost-benefit analysis, as long

as the extra benefit of providing more of the activity exceeds the extra cost, the government should increase its subsidy to provide more of the activity. This will occur when there are social benefits beyond those that accrue to private individuals. However, instead of comparing the individual benefits to the costs, when developing public policy, we must include the social benefits as well. The greater the social benefits, the greater should be the public investment.

Dr. O'Neill does not perform a cost-benefit analysis of any of his recommendations, including when he concludes that individual benefits trump social benefits, and thus it is justifiable to make individuals pay more for their education. Regarding individual benefits, he concludes, "The most significant component of the economic/financial value of post-secondary education is the varying levels of income that differences in educational attainment generate. The evidence is clear that a significant premium is earned by those who hold an undergraduate degree."<sup>12</sup> According to him, "In post-secondary education, the basic rationale for public support is that, beyond the gain to individuals of a university degree (measured as the increase in lifetime earnings), society enjoys

additional benefits from having a better educated citizenry.<sup>13</sup> The passage continues as follows: "These social benefits are challenging to specify in anything but general, often vague terms (e.g., better informed, more involved in political decisions, etc.) and impossible to quantify."<sup>14</sup> Once we undertake a fuller accounting of individual costs and benefits, as well as social benefits, a different conclusion must be drawn about the appropriate public-private division of costs.

#### To What Degree? Post-Secondary Education Benefits Individuals

The appropriate division of costs covered by public funding and those covered by students has serious implications for the individual, the post-secondary education system and for society. It is without a doubt that an individual who holds a post-secondary credential benefits from it. To conclude, however, that the primary value of a university degree is the income premium gained by this individual is problematic. It is also problematic to conclude that the proportion of costs covered by the individual should be proportionate to the total gain generated and accrued to the individual. These are the two central claims used in the O'Neill Report to justify what should drive public policy decisions about the appropriate public-private division of costs. Dr. O'Neill follows this logic to argue that since the private benefits are so substantial, students should bear the majority of the cost of their university education. Hence, tuition fees should contribute a greater proportion of funding for post-secondary education than government's share.

These claims are problematic for several reasons. First, the economic premium is not only substantially lower than claimed in The O'Neill Report, the premium not only benefits individuals, it has social benefits. Taking into consideration the reality of progressive rates of income tax affects both claims. A progressive income tax system requires a proportionally higher

amount of tax payable by those persons who earn a higher income. Even if those who hold a university degree do earn more money than those who do not, these university graduates pay more in taxes, which are then used to fund the public university system in Canada. Indeed, the net benefit to the student is substantially lower if one accounts for the impact of income taxes.<sup>15</sup> Taking this into consideration, economist Hugh MacKenzie has calculated the income discrepancy to be a lot lower than in The O'Neill Report. Over the course of a working life, MacKenzie estimates the difference between those with a university degree and those with a high school diploma is only \$148,000, not the \$765,000 cited by The O'Neill Report.

The income premium from a university degree is an average calculation and should be used with caution. Basing appropriate tuition levels on this premium takes away from understanding the complex relationship of tuition to the value of the degree. Variations on income earned result obviously depend on the actual degree obtained (i.e. whether nursing, medicine, law, education, general arts). However, the program operating costs are not necessarily related to the benefits the programs confer in terms of income, and tuition fees are not necessarily related to either operating costs or future income. If one is to compare post-secondary education in the fields of nursing and teacher education, it costs the university more to provide nursing and education students pay less tuition fees, while teachers and nurses earn similar salaries.<sup>16</sup> While there is a move to allow professional program fees to be significantly higher than other programs, based on this economic premium argument, how do program costs figure in the equation? Moreover, what are the full implications of such divisions of costs and funding for the university let alone the entire system?

The average income premium also masks significant variations and real life factors for the worker. Simply because university graduates

may have earned more money in the past, is no guarantee this will continue to be the case. Individuals have different income earning potential than others for many different reasons. For example, some people (more often women) take time off from their jobs to take care of children, and others end up being underemployed and working part-time or in jobs requiring fewer skills/credentials than they have.

Focusing too closely on this individual premium, can side-step questions of fairness and equity. How is it that, according to The O'Neill Report, the individual rate of return on an investment in an undergraduate degree averages 11.5 percent for men and 14 percent for women?<sup>17</sup> Not surprisingly, this means that the earnings difference between women who do not have a post-secondary education and women who do is greater than between men who have a post-secondary degree and those who do not. However, the O'Neill Report does not acknowledge the wage gap that persists between female university graduates and their male counterparts. Women make 68 percent of the earnings of men at the Bachelor level.<sup>18</sup> How the rate of return is calculated also matters. A recent OECD report found the earnings premium to be a lot lower than the one O'Neill claims — for men the premium is \$149,373 over their lifetime, but only \$87,280 for women.<sup>19</sup> The OECD report also found that the private rate of return for women was slightly below that for men (8.8 compared to 9.6).<sup>20</sup> Clearly, the fact that the labour market discriminates against people because of sexism, as well as because of racism, and/or ableism should be taken into account.

In addition to looking more closely at the individual benefit claims in The O'Neill Report, it is important to undertake a fuller accounting of individual costs. Individual students already make a significant personal investment beyond the amount of tuition fees they pay. As The O'Neill Report acknowledges, the largest part of the cost of a university education is not tuition fees; rath-

er, the largest cost is the opportunity cost of the income students forgo when they attend university.<sup>21</sup> Assuming students would have been able to work full time at the minimum wage, they are giving up approximately \$20,000 per year for each year of full time university attendance. Add to this \$5,000 for tuition fees (over \$6,000 for out of province students), \$1,000 for books and \$500 for transportation, and a conservative estimate of the annual amount a Nova Scotian student invests in her education is \$26,000. This is considerably greater than the government contribution of \$9,509 per student per year in 2010–11<sup>22</sup> and does not include the investment of additional time, stress, and effort students put into their studies. O'Neill also ignores students with additional expenses such as students with dependents, students with disabilities, and rural students, who will likely see a lower rate of return for their education.

The costs associated with a university degree in Dr. O'Neill's calculations also fail to take into account the full implications of rising student debt. Most recent data looking at graduates from 2007, found that by 2009, 75 percent of first-degree holders in Nova Scotia had borrowed money to fund their 2007-degree and/or subsequent education. On average, Nova Scotia graduates had borrowed \$36,092 by 2009 and 31 percent borrowed \$45,000 or more.<sup>23</sup> Students are taking on more debt than ever before and are finding it more difficult to pay off. A recent MPHEC study found that 21 percent of Maritime graduates who owed more than \$30,000 when they graduated still owed at least that amount five years later. That report also found that students who graduated in 2003 were less likely to have paid off their student loans completely five years after graduation than students who graduated in 1999.<sup>24</sup> In a five-year period between 1992 and 1997, when tuition fees were rapidly increasing, student bankruptcy in Nova Scotia increased by over 250 percent.<sup>8</sup> High bankruptcy rates and high default rates actually pushed CIBC to stop

providing student loans even with a risk premium from the government.<sup>9</sup>

While it may be the case that students have been willing to take on additional debt, surely that does not justify continuing to increase their debt loads until we reach a place where they decide the debt is no longer manageable, especially when the individual costs outweigh the benefits? This approach is at its heart inequitable and unfair. Those students with the ability to pay will pay less for their education than those students who must take on debt in order to cover fees. Deferring payment to after the period of study through student debt, results in higher costs because students who borrow will pay their loan principle plus interest. Research has also found that students who did not have to borrow for their education were more likely to finish their degree, own a home, and save for retirement.<sup>25</sup> Other research has found that the gender wage gap results in women taking longer to pay off student debt, with the resulting higher interest paid by women over the course of the loan repayment.<sup>26</sup> In addition, debt aversion needs to be considered; Lower-income students are also more risk averse when it comes to borrowing for education.<sup>27</sup> Requiring individuals to pay more tuition fees, which for those who are already disadvantaged means more debt, is a further entrenchment of equity gaps. High tuition fees, which are upfront costs, further negatively impact the individual benefits accrued, and, as is discussed below, the social benefit achieved through post-secondary education.

#### Social Benefits Outweigh Social Costs

When individuals attain higher levels of education, there are numerous economic as well as nonmarket benefits for our society. The O'Neill Report devotes very little space to these benefits, but does include the following:

"There are also attempts to calculate or estimate the return to society that occurs as a result of individuals achieving higher levels of education. The most obvious financial impact on society is that those individuals have higher incomes and will end up paying more in total taxes, which will help to fund public services for all and to redistribute income to lower-income individuals. Second, because those with higher levels of education tend to have lower levels of unemployment, they will also tend to draw less on social services, such as employment insurance and other social transfer payments."<sup>28</sup>

O'Neill, however, neglects to discuss the magnitude of this tax effect on public finances. The positive impact is substantial; with marginal tax rates — including income, consumption and excise taxes — for average university graduates of approximately 50 percent,<sup>29</sup> the extra \$148,000 income earned by a university graduate could generate roughly \$74,000 in extra tax revenue over the course of her working life.<sup>30</sup> This benefit alone exceeds the current per-student public contribution (\$9,509 per student)<sup>31</sup> to university education many times over.<sup>32</sup>

The calculation of social benefits also needs to factor in economic spinoffs. The return on investment is especially substantial when one considers the impact of a university or college campus on a rural community. For example, Acadia University accounts for 33.9 percent of total employment and almost 90 percent of income generated in Wolfville, Nova Scotia.<sup>33</sup> The following excerpt from The O'Neill Report is therefore perplexing: "Regarding the broader issue of the role of the universities on the local economy, their impact is incidental to the mandate and purpose of the university system and its individual institutions. The teaching and research activity carried out has an effect on the broader economy's growth through productivity enhancement, but that



would happen wherever the university was located.<sup>34</sup> Whether a university's role in the local economy is incidental does not matter when one considers the reality of how local communities would survive without them given very localized practicalities such as how much a specific institute contributes to the municipal tax base.

From an economic perspective, perhaps the most significant social benefits of university education are "knowledge spillovers" which arise when an educated population raises an economy's overall productivity. University educated people are more likely to be innovators and entrepreneurs who create employment and enhance incomes, not only for themselves, but also for others. Furthermore, highly educated individuals can enhance the productivity of those with whom they manage and interact in the workforce. This increase in productivity results in higher wages and contributes to economic growth.

By way of illustration of the spillover effect, a recent study by Enrico Moretti using U.S. data found that a one-percentage point increase in the supply of university graduates raised high school drop-outs' wages by 1.9 percent, high school graduates' wages by 1.6 percent and college graduates' wages by 0.4 percent.<sup>35</sup> Assuming Nova Scotia would experience a similar effect, the overall economic impact would be substantial. In 2006, the median income of full time workers in Nova Scotia was \$28,059 for those with less than a high school education, \$31,749 for high school graduates, and \$50,889 for those with a bachelor's degree.<sup>36</sup> Applying Moretti's findings, a one percent increase in the supply of university graduates (for Nova Scotia, this represents roughly 1,000 additional graduates) would increase incomes by \$533, \$508 and \$203 respectively. With roughly 370,000 full time workers in Nova Scotia, the majority of whom do not have a university degree, this very small increase in the supply of university graduates would increase incomes in Nova Scotia by many millions of dol-

lars annually (and have a considerable positive budgetary impact).<sup>37</sup>

There are numerous non-market social benefits to a university education, which we also need to weigh in the balance. Higher levels of education are associated with improved health (and corresponding lower public health bills), improved labour market search efficiency, greater adaptability to new jobs, increased charitable giving and volunteer activity, greater civic engagement, less social inequality, and lower crime rates. Furthermore, parents with higher education are more likely to raise healthier, more educated children.<sup>38</sup> Thus, an investment in university education today can yield social and financial benefits for future generations.

Recent articles by Riddell,<sup>39</sup> Wolfe and Havenman,<sup>40</sup> and McMahon<sup>41</sup> provide estimates of the social returns to university education. They all conclude that these are at least as large as the private returns. In an article that summarizes the efforts to quantify the social benefits of education, Craig Riddell writes, "These estimates suggest that the social benefits of education may be similar in magnitude to the private benefits associated with higher lifetime earnings... If so, the social returns to education are substantial and justify significant public subsidization of this activity."<sup>42</sup> With such substantial social benefits, it is not a question of whether we can afford to fund our universities but, rather, how can we ensure that every student with the desire and ability to attend university has that opportunity.

#### Significant Social Benefits Justify Additional Public Investment

If one accepts the claim that individual benefits outweigh the costs and indeed, that the individual rate of return is greater than society's gain, then certain policy directives will follow as in The O'Neill Report. However, as we have shown above, these claims are questionable. On the one hand, The O'Neill Report discounts our ability

to measure social benefits. On the other hand, he reduces the argument in favour of higher tuition fees to an economic one that over-estimates the individual benefits and under-estimates the costs to the individual.

It is not justifiable to download more costs onto individuals. The total cost to students of obtaining a university education is roughly \$26,000 per year. This is almost three times as great as the government contribution of \$9,509 per student per year. **Just as the social benefits of a post-secondary education are roughly equal to the private benefits, so should the division of costs and invest-**

**ments.** To do otherwise is to risk losing these invaluable social benefits.

***Recommendation:* In order to protect the invaluable social benefits of post-secondary education, the public investment in university education should be roughly equal to the private investment made by students. Currently, the student investment is three times that of the government.**

As is further explored in the next section, the government needs to develop policies to prevent the erosion of this common good by addressing the increasing privatization and marketization.

# Eroding a Public Good For Private Interest? Post-Secondary Education In the 21<sup>st</sup> Century

Since 2004, governments of four other Canadian provinces, (Alberta, British Columbia, Newfoundland and Labrador and Ontario), have undertaken wide-ranging reviews of their respective provincial post-secondary education systems. As concluded of the other reviews, "Taken together, they demonstrate the pervasive influence of economic globalization which is accompanied by an increasingly utilitarian, market-oriented ideological outlook on post-secondary education's *raison d'être*. The policies advocated in the review reports illustrate, to varying extents, the impact of such dominant influences on modern post-secondary policies as privatization, marketization, quality assurance, and internationalization."<sup>43</sup>

Many of the O'Neill Report's key recommendations reinforce this ideological approach. We need to consider carefully the full implication of its manifestation for the quality of post-secondary education. Private interests risk overtaking public interests as privatization infiltrates the university system in myriad of insidious ways.

First, advocating that universities should increase their reliance on students to pay directly for their education via tuition fees is a form of

privatization. Over the past two decades, severe cuts to public funding for universities and colleges has shifted the burden of paying for education onto individual students and their families. This shift can have a broader impact if the balance of power shifts away from public accountability to a more market-based, consumer-oriented system accountable to its customers. In 1987, government funding made up more than three quarters of university budgets. By 2007, that portion had fallen to 43 percent, the lowest in the country. Over that same period, the portion of university budgets made up from tuition fees increased from around 15 percent to almost 47 percent.<sup>44</sup> Most recent data indicates that as a percentage of revenue, the government contribution to university budgets is 56 percent. This is a troubling trend especially because, as the Organization for Economic Cooperation and Development (OECD) has suggested, "Public investments in education, particularly at the tertiary level, are rational even in the face of running a deficit in public finances. Issuing government bonds to finance these investments will yield significant returns and improve public finances in the longer term."<sup>45</sup> Our government should in-

crease its investment and protect the invaluable social benefits of this system.

Attracting more international students and charging them much higher fees than domestic students is part of this privatization trend. In 2008–09, Nova Scotia had the fourth highest tuition fees in Canada for international students at \$11,771, which was 11 percent higher than the Canadian average of \$10,616.<sup>46</sup> Enrolment of international students in Nova Scotia increased by 113 percent (from 1,839 to 3,915 students) between 1991 and 2007.<sup>47</sup> As it stands, the government has confirmed that its commitment to cap tuition fee increases at three percent applies to international students. However, gouging citizens of other countries financially in order to benefit local students is not a fair or sustainable approach.

**Recommendation: The provincial government should ensure that decreasing or eliminating fee differentials for international students are part of a discussion of a comprehensive system-wide tuition fee/recruitment strategy.**

Universities have also increased their reliance on private-for-profit enterprises, notably to help build new buildings. The O'Neill Report recommends universities take this a step further by encouraging them to enter into partnerships with private companies to allow them to own and manage certain university facilities.<sup>48</sup> Businesses or wealthy individuals tend to favour funding buildings for professional programs. Not part of the deal is funding for the maintenance of these new buildings named after the private donor or classrooms named after corporations.<sup>49</sup>

**Recommendation: Capital investment should not involve public-private partnerships, and should consider how to maximize the broader community use of university facilities as public infrastructure.**

Privatization is also creeping into academic research. The commercialization of research has particular implications for academic freedom,

which we need to approach as a social good in and of itself.<sup>50</sup> The focused efforts on related initiatives have dramatically increased with the following results between 2005 and 2009: “the number of filed patent applications more than doubled to 66 per year; new licences increased nearly four-fold to 27 per year; Licensing and royalty income increased nearly four-fold to \$921,000 per year; Industry-sponsored contract research increased 45 percent to \$33.4 million per year.”<sup>51</sup> The concerns are that research agendas will be primarily driven with these outcomes in mind, that for-profit-companies will have undue influence, that there will be restrictions on data sharing, and on findings disclosure.<sup>52</sup> The dominance of time spent on these activities could also take away from teaching. We must take threats to scientific progress and changes to research very seriously, and guards against them must figure into any commercialization initiatives.

**Recommendation: Guidelines should be developed in consultation with stakeholders about the nature of commercial research undertakings to ensure that scientific progress and academic freedom is protected.**

**Recommendation: Instead of encouraging universities to privatize their research endeavours, they should be supported to further develop centres of excellence in research that already exist with additional public funding also directed to encourage the development of other centres.**

Whatever its form, privatization has implications for maintaining a post-secondary education as a common, public good that embraces broad democratic principles of accountability, transparency and public control. In addition, all of these fundraising initiatives and commercialization efforts take increasing amounts of resources (staff, space, etc) to undertake, which is also concerning. The following section delves further into questions of accountability and use of limited public resources.

# Negotiating the Future of Affordable, Accessible Post-Secondary Education

The three-year funding agreement between the Department of Education and the Council of Nova Scotia University Presidents that set out a tuition fee freeze policy in the province expired March 31, 2011. Negotiations of a new Memorandum of Understanding (MOU) for university funding to cover 2012 to 2015 are just beginning. This will mark the third MOU negotiated in the province. These agreements have been important for ensuring stable funding to universities and some predictability regarding tuition fees. In addition, they have allowed the government and universities to outline key policy objectives. The last MOU helped bring tuition fees in line with the national average.

This section of our report makes recommendations to guide this round of MOU negotiations. Our first recommendation regards who should be at the table for these negotiations.

**Recommendation: Upcoming Memorandum of Understanding negotiations must include representation from students, staff, and faculty. The government must meaningfully consult with all these stakeholders when making policy changes, or decisions regarding fund-**

**ing and tuition fees and when setting policy and directions for post-secondary education.**

In addition to who should be at the table, we need to reconsider the current approach that seeks to determine what a sustainable debt load might be for an individual student, and instead consider how to fund post-secondary education in an equitable and fair way. If the government continues to allow tuition fee levels to rise, some students for whom the overall private costs exceed the benefits will choose not to attend university, and this net benefit to society will be lost.

Average undergraduate tuition fees in Nova Scotia are \$5,495, some of the highest in the country. Graduate students in Nova Scotia pay the highest graduate fees in Canada at \$7,350.<sup>1</sup> Government investment in the NSCC over the past 20 years has remained strong, in terms of both operations and infrastructure. However, the NSCC has not been immune to tuition fee increases. Students pay \$2,700 per year for a certificate or diploma program and \$3,700 for an advanced diploma program.<sup>53</sup>

In February 2010, the NDP government rescinded the university tuition fee freeze that had

been in effect in Nova Scotia for three years. The tuition fee freeze was replaced by a tuition fee cap that the government says, “will protect Nova Scotia students by ensuring tuition remains at, or below, the national average and help universities remain competitive and sustainable for years to come.”<sup>54</sup> The cap allows universities to increase tuition fees by up to 3 percent every year with exceptions allowed for professional programs and for special reasons. It is the case that all universities in the province can choose whether to increase tuition fees and by how much within the cap. However, by announcing a 4 percent cut to university operating budgets for 2011–12, the NDP government all but ensures that students will face an annual tuition fee increase of 3 percent. Students will more than likely face an increase in ancillary fees as well because the universities also have to cover inflationary costs and wage settlement increases for a real cut in the range of 7.5 percent.<sup>55</sup> One university has indicated that tuition fees will increase by 3 percent next year.<sup>56</sup> Another university’s fee increases will vary from 3 percent for most programs, 10 percent for international students, up to 14 percent for some professional programs.<sup>57</sup> Due to a funding freeze implemented by the NDP government and increasing costs, the NSCC is also considering raising tuition fees to deal with budget shortfalls.<sup>58</sup>

The policy thrust of the NDP government is based on conclusions drawn in the O’Neill Report that the impact of tuition fees on university participation is modest. Dr. O’Neill does note that participation amongst low-income, Aboriginal, and African Canadian youth, and youth living with disabilities continues to be low, but that financial barriers are not the most significant factor explaining why. O’Neill cites evidence in articles by Frenette<sup>59</sup> and by Berger and Motte<sup>60</sup> that indicate that financial barriers account for a smaller portion of the gap between high and low-income students’ participation rates than parental education, reading scores, and grade point average. O’Neill writes the following:

“The research cited above suggests that financial barriers are not as significant an impediment as other factors to the participation rates of under-represented groups. It therefore follows that the level of tuition fees, which are only a part of the financial burden borne by university attendees, is not likely, by itself, to be a major barrier to the degree of participation of low-income individuals, aboriginals, African Canadians, or people with disabilities.”<sup>61</sup>

However, this does not accurately represent the conclusions of the authors of these articles. In the same article to which O’Neill refers, Berger and Motte write the following:

It would be wrong to conclude from this, however, that financial constraints don’t matter. First of all, we need to be precise about Frenette’s conclusion: he argues that a lack of funds explains 12 percent of the *difference* in university enrollment between low and high-income students, all else being equal. This is not the same as saying that financial factors somehow only explain 12 percent of the decision to enroll in the first place or that only 12 percent of those choosing not to go to university do so for financial reasons. To the contrary, Frenette finds that regardless of family income and controlling for other factors, the presence of financial constraints reduces an individual’s likelihood of enrolling in university by 30 percentage points. Clearly, then, the importance of financial barriers cannot be ignored.<sup>62</sup>

Contrary to O’Neill’s assertion in the report, these authors conclude that financial constraints *are* a significant impediment to university enrolment. There is also primary data to support this claim.

A recent Statistics Canada report found that 32 percent of Canadian youth aged 18–24 were not pursuing education or training they wanted or needed, with the majority of them citing financial reasons as the primary factor.<sup>63</sup> Other research has found that students reduce their course load in order to take on part-time work to pay for expenses and those students who take on student debt are less likely to complete their degrees.<sup>64</sup> The MPHEC has also released findings that tuition fees are a factor in enrolment trends.<sup>65</sup>

There is consistent research that higher fees in professional programs (which tuition fee freezes or reductions often do not cover) have resulted in steep enrolment declines of low- and middle-income youth. In a 2004 study that looked at the impact of tuition fee increases for medical school in Ontario (fees increased from \$5000 to \$14,500), researchers found that the number of medical students coming from families with household incomes of \$40,000 or less dropped from 23 percent to 10 percent.<sup>66</sup> This is a significant finding for a consideration of rising tuition fees generally, especially since the recent survey by the MPHEC found that there were fewer students of parents with lower educational attainment at university; to de-regulate tuition fees for these professional programs, and allow them to increase for others, will increase the debt-load of students from these families. This policy of high tuition fees risks entrenching social classes, further ensuring that social mobility is no longer possibility in our societies.<sup>67</sup>

What of the argument that fees obviously are not a determining factor because enrolment continues to increase despite fee increases? One needs to examine the demand-price relationship for post-secondary education a little more closely to understand the risks of assuming that higher fees will not result in declining enrolment.

### Consider the Complex Demand-Price Relationship

Although price elasticity for higher education is rather low, the balance of evidence suggests that as tuition fees increase, demand will decrease. This demand-price relationship is much more complex and there are many intervening factors that affect it, which must be factored into decisions about government funding and tuition fee levels. It is the case that opting-out of post-secondary education is less of an option. There is more pressure on students to attend university because of the shift toward the knowledge economy. More jobs require a university education than previously, with two-thirds of all jobs requiring at least two years of postsecondary education.<sup>68</sup> However, there are other reasons enrolment did not decline as fees increased. For example, an increase in women's participation in university also boosted enrolment.<sup>69</sup> There was also a trend to attract more international students during the same time frame.

Some groups are more or less responsive to price increase than others. It is common sense that those with higher income are less responsive to the price increase, whereas price increase will increasingly deter those with lower income.<sup>70</sup> The evidence suggests, however, that the income class that has seen a decline in attendance since the 1990s are those from the middle-class. This decline might indicate that the price maximum has already been reached for this group. They would be more sensitive to price increase than high-income students and less than low-income students.<sup>71</sup> Squeezing out the middle class will have long-term negative implications for our society, affecting social cohesion. Drawing as many students from families of lower socio-economic status into post-secondary education, could actually increase the social benefits for our society. We need a mix of demographics in our system.

Dr. O'Neill does urge the government to improve financial assistance to these students. Taking up this recommendation in the O'Neill Report,

the NDP government made several announcements in the 2011–12 budget. Along with a tuition fee cap, the NDP government has committed to offering a cap on student debt, to increasing the amount of loans that are non-repayable, and to providing financial assistance to those students who need it most.<sup>72</sup> As we demonstrate, there are several problems with this approach and there are other more cost-effective, fair, and equitable approaches to increase enrolment.

#### Student Financial Assistance: From Rebate to Grant Without Debt-Cap

The NDP government announced several changes to the student financial aid program in Nova Scotia in the 2011–12 provincial budget. The most significant change was the introduction of a debt cap program to be phased in over the next four years. The program will apply a payment to the loans of students who graduate from a post-secondary education program with loans over a certain amount. By 2014–15, the debt cap will be \$28,560. Although the program recognizes the need to provide more non-repayable assistance to students, there are several problems with the program.<sup>73</sup>

This \$8.1 million debt cap program will not assist those students who leave school prior to graduation or students who move to part-time studies and enter repayment. The program will only apply to four years of study. This means that if a student spreads her degree over five or six years in order to incur less student debt, the debt cap will only apply to the amount of debt she took on for the first four years of that degree, reducing the benefit for that student. To illustrate, if a student takes on \$7,000 in student loans per year and takes five years to complete her degree, she will see no benefit from the debt cap program, despite having a debt-load of \$35,000, because in the initial 4 years she only accumulated \$28,000 of student debt. The program is not in line with MPHEC research, which shows

that students are taking longer to complete their degrees. Also, since the program has a four year ceiling and not an annual ceiling, students who incur under \$28,560 because they are enrolled in a one or two year program will see no benefit.

Several other modest, but positive, reforms were also made to the Nova Scotia Student Financial Assistance Program. The portion of a Nova Scotia student loan received as a grant will increase from 20 percent to 30 percent. The government will also increase the amount of loans available to students from \$150 per week to \$160 per week, meaning that the maximum grant portion will increase from \$30 per week to \$48 per week and the maximum loan portion will decrease from \$120 per week to \$112 per week.

There have also been increases to the amount of money a student can earn during their in-study period without facing claw backs (from \$50 to \$100 per week) a reflection of the need for more students to work while in school. In addition, the allowable costs for books will increase from \$1,000 to \$1,500, a reflection of increasing costs for books and supplies.

While these reforms are positive, the changes are still significantly below the government investment in the Graduate Retention Rebate. The program, announced as part of the NDP election campaign, offers a \$2,500 non-refundable tax credit to graduates who stay in the province following graduation. Regardless of income or need, a graduate can claim the credit for up to five years. The 2011–12 provincial budget invests \$25 million in this program, an increase of \$8 million over the 2010–11 Budget. Tax credits are an ineffective use of public money and of reducing student debt as many graduates do not pay taxes until years after graduation and cannot access the credit. In addition, for students who need the financial assistance the most, the money does not arrive when it is needed the most — when they are studying. In addition, higher income families get more benefits and therefore it is an inequitable program.<sup>74</sup>



***Recommendation: The government should reinvest the money from the Graduate Retention Rebate into up-front grants.***

If the government reinvests the Graduate Retention Rebate into grants, it could provide 100 percent of a student's provincial student loan as a grant. This would mean that after four years, a low-income student receiving a maximum student loan would graduate with about \$20,000 of debt, far below the \$28,560 cap. The provision of up-front grants would also benefit students in one to two year programs, as well as students who had to leave studies or study part-time.

This reinvestment would also mean that the \$8.1 million dedicated to the debt cap program would no longer be necessary. Instead, the government could use this money to offer debt relief to students struggling in repayment. There are many ways that the province could help graduates and other borrowers currently in repayment who would not benefit from the increase to the grants program we recommend above. Borrowers who qualify for such programs should be automatically enrolled, and not subjected to long, complicated application processes.

***Recommendation: Direct the \$8.1 million in the debt cap to offer debt relief to students who are currently repaying their loans including programs to forgive debt, provide additional repayment assistance or eliminating interest on student loans.***

**Lower Tuition Fees:**

**A Question of Fairness and Equity**

While our above recommendations are more cost-effective and an improvement in the options available for students who are in financial need, we ultimately advocate a move away from policies that maintain high up-front costs for post-secondary education. The principle of a debt-based system of student aid shifts the up-front cost of tuition fees to the after-study pe-

riod and increases them based on the accrual of interest. This programme requires a large and complicated institutional bureaucracy at the federal, provincial, and institutional level to monitor students and borrowers through both study and repayment. A system based on grants that provides non-repayable assistance up-front is a more equitable and more efficient programme. In 2009–10, the Nova Scotia Government lent more than \$28 million to students, paying close to \$3 million on in-study interest.<sup>14</sup> According to the MPHEC, 42 percent of students borrow from government sources for their education.<sup>75</sup> Tuition fee increases result in even higher levels of student financial need. As student need increases, the government needs to spend more money on student loans, grants, repayment assistance and debt forgiveness.

Driving down the cost of tuition fees, then, can also reduce the need of students to borrow, saving money on student financial assistance programs in the province. Currently, the government spends one dollar on administering student loans for every three it lends to students. Replacing the debt-based system of student financial assistance with a system of up-front, needs-based grants would eventually eliminate the costs associated with monitoring students and graduates through repayment, and streamline the system of administration. By directly reducing student debt through grants, the province would also save money on debt management costs including in-study interest, repayment assistance, and defaults. More public funds would directly reach students, improving access for those students who currently cannot access assistance or who are forced to borrow money and to pay back the principle plus interest after graduation.

***Recommendation: The determination of overall public funding, as well as appropriate proportions to individual universities must allow institutions some security and ability to plan,***

**maintain education quality and make tuition fees more affordable.**

**Finding Efficiencies, Guided By Principles**

Saving money on debt management costs is not the only way the government can save money. Reprioritizing public funding in ways that are more effective is also more cost-efficient. Dr. O'Neill highlights two key areas for cost savings: mergers and outsourcing. Perhaps the most confusing part of the O'Neill Report is the section on bilateral mergers. Here O'Neill recommends that the Nova Scotia College of Art and Design (NSCAD), The Nova Scotia Agricultural College (NSAC) and Mount Saint Vincent University (MSVU) consider merging with other institutions. The primary justification for mergers, for any type of institution, is that they will result in cost savings through "economies of scale" — factors that reduce costs as organization size increases.

In the corporate world, these cost savings (or efficiencies) from mergers have, generally, not materialized. Consider the principal finding of an exhaustive survey conducted by Tichy of about 80 empirical merger studies:

The empirical results unveiled the myth that mergers increase efficiency and improve the competitive positions of companies. About half of mergers did not attain even the business goal of improving profits; about a quarter increased profits by market-power induced price rises, and only one quarter at best augmented consumer welfare.<sup>76</sup>

Essentially, three quarters of corporate mergers fail to produce real efficiency gains.

The evidence suggests that, generally, university mergers also fail to reduce costs. The Report states as much, admitting that there is little evidence that university mergers result in cost savings:

Unfortunately, the experience in this province and in other jurisdictions with mergers yields little or no clear evidence of cost reductions, short term or sustained, from institutional consolidation.<sup>77</sup>

Given that there is little evidence that university mergers reduce costs, it is unusual that the Report still recommends considering mergers of NSCAD, NSAC and MSVU with other institutions. Not only might these mergers not save money, they could result in higher costs.

The O'Neill report also considers how much could be saved by out-sourcing more services. This has been part of the privatization trend where in universities have sold many campus services to highest corporate bidders. Many of these services were once student-run or campus-controlled. Universities have opened up more areas of the campus to private businesses for advertising as well; a target population like this one is a lucrative market.<sup>78</sup> Even academic services have been offered as profit-making ventures. The outsourcing of pathways programs is perhaps the best example, and it has raised many concerns.<sup>79</sup> In 2010, Dalhousie University's administration proposed the use of Navitas, an Australian for-profit corporation that specializes in recruiting and teaching students whose academic standing is generally low (below Dalhousie's admission criteria) and who also lack the English-language skills to pass the TOEFL exam. It was opposed there, but its use in other universities highlights the risks of 'partnering' with enterprises focused on profit-making. When the focus is profit, there is an incentive to lower standards in order to pass more students. In addition, academic departments have lost control over who teaches the required classes and how.<sup>80</sup>

**Recommendation: Universities should not be permitted to outsource academic and student support services to for-profit companies. An assessment of already outsourced services should consider whether they could be brought**

**back into the internal operations of universities or contracted-in if it would decrease costs, if they are revenue-generating or/and if there are concerns about quality.**

Streamlining some services including admission into a central agency could achieve efficiencies, but also be part of a strategy for increasing enrolment. Akin to the system operating in Ontario, a common system for recruitment, application and admissions, could result in efficiencies and make it easier for students to register for courses at sister institutions. This system should be provided by the provincial government on a cost-recovery/revenue-neutral basis or as a revenue-generating system. In addition, incorporating recruitment into a centralized system would stop individual institutes from using funding to do its own marketing to compete against each other in a zero-sum game for in-province recruitment. Stakeholders should be fully consulted in the detailed planning and implementation of this new system, which also protects collective agreements that are in place.

***Recommendation: Set up a common recruitment, application and admissions system for the province of Nova Scotia, operating on a cost-recovery or revenue-generating system by the provincial government.***

A review of pension, as well as health and welfare benefits should be undertaken to determine the costs of consolidating them into a province-wide system as either part of the public service or stand alone system. Stakeholders should be fully consulted and oversee the further development of shared services and must observe collective agreements.

***Recommendation: Universities are encouraged to find additional efficiencies in the provision of goods and services through Interuniversity Services Inc.***

While a substantial amount of their funding comes from government, universities have autonomous governance structures. As institutions chartered by the provincial legislature, universities are similar to other public bodies such as District Health Authorities and schools boards, which also have autonomous governing structures, and should be held accountable for the spending of public dollars. However, in contrast to these other bodies, universities are treated as if they were 'private'. In addition, university Board of Governors tend to be dominated by members drawn from the business community, and do not reflect broader public or community values and interests.

***Recommendation: University Board of Governors should have a balance of interests including fair representation of the diversity of university stakeholders (various student groups, faculty representation, staff representation). In addition, the Board should reflect broader public values and community representation drawn from various sectors, and not just dominated by business interests.***

Unlike The O'Neill Report, our focus is not on which performance indicators should be developed to hold universities accountable. We concentrate on accountability requirements that seek to ensure that public funding goes to research and teaching, and that private interests cannot trump public ones. Our primary interest is to protect academic freedom, to protect education quality and the university as a public good.

Establishing and enforcing common and transparent financial reporting standards for universities would allow the government, as well as students, staff, faculty, and the public, to track university expenditures. The *Public Sector Compensation Disclosure Act*, which will require universities to report salaries of employees making more than \$100,000 per year, is a good first step in establishing public accountability measures for our universities. Such an

approach should be extended to other university expenditures. The province should require universities to use consistent, transparent and uniform financial reporting procedures. It is especially important that such procedures allow stakeholders, including the public, to see the exact amount of funding for academic instruction and research as compared to expenditures in media relations, fundraising, administration and the commercialization of research. It is especially important to break down administrative costs to show front-line service providers versus senior administration costs. There is serious concern about management creep and disproportionate spending on senior positions. At Dalhousie University, for example, “salaries for the president and associate and assistant vice-presidents more than doubled between 2005 and 2010, going from just over \$1.4 million to nearly \$3.5 million. Three new spots have been created in the last two years.”<sup>81</sup> Regulations that exist in other public sectors should apply to universities; in other sectors, public funds cannot be used for fundraising or lobbying, and there are limits on salaries and benefits for managers.

**Recommendation: The government should establish standard financial reporting procedures for universities, and that university financial documents should be released to the public as with other public expenditures.**

**Recommendation: The government, in consultation with universities, and organizations representing students, staff, and faculty, develop regulations on the use of public funds and user fees collected by the university.**

These regulations would stipulate appropriate percentages of operating budgets that universities must be devoted to instruction and to research. We recommend:

- Funding regulations that include provisions not permitting universities to

use public money for fundraising, lobbying or to establish public-private partnerships.

- Conduct management audits at each university in order to attain an effective balance between monies allocated to senior management positions and the provision of front-line services

**Recommendation: To stabilize funding to individual universities, we recommend adopting a system that considers appropriate enrolment bands (upper to lower preferred institution size considering program capacity). Funding would only decrease if enrolment falls below the range, but institutions would not be rewarded if they exceed the range.**

The goal is to stop expansion for revenue-raising sake and this would be an integral part of planning how the universities can work together as parts of a larger system.

The most effective way to fund the system is via the general tax system. As such, we recommend making the income tax system more progressive, ensuring that everyone — especially the rich — pay their fair share. Increasing the top tax bracket (breaking down the top two income brackets into more brackets), would provide the government additional revenue that could be used to adequately fund post-secondary education.

**Recommendation: The government should undertake income tax reform to make the system more progressive.**

Our recommendation is in stark contrast to the assumptions in the O’Neill Report, which pitted taxpayers against students, and wealthier students against middle-class/lower-middle class students. Indeed, he argues or rather speculates that public funding of post-secondary education is a subsidy for the rich. In his words:

*“If, as appears to be the case, [our emphasis] a relatively high percentage of university students come from relatively more affluent*

families, it raises the question of whether it is fair for middle-class and lower-middle-class taxpayers to effectively subsidize the university education of students from wealthier families.<sup>82</sup>

Therefore, according to O'Neill, given that there are fewer students from lower and middle-income groups attending university, the tax system is not an equitable way to fund the system. This is a questionable claim in and of itself. Nevertheless, even if we were to accept this claim, since a large proportion of current funding to universities is from general government revenue, one cannot make this claim without considering current distribution of taxes. This would entail comparing whether the higher income groups make up a larger proportion of the student population than of family income.

Research by economist Hugh Mackenzie shows that "more than 60 percent of families with children are net beneficiaries of the transfer inherent in subsidizing tuition from general government revenues." Mackenzie concludes, "subsidizing tuition from general revenues results in an income transfer from higher-income families to lower-income families."<sup>83</sup> In other words, the current system of funding university education is progressive, where those who have the ability contribute to a system that produces substantial social benefits, as well as important individual benefits that would be of greater benefit to lower-income families. This is an equitable way to fund the system.

Making the income tax system more progressive, would go a long way to protect and maximize the post-secondary system's social benefits. Those who have been able to attain a decent income, whether they have children who wish to go to university or not, should help subsidize this public service for the next generation. The tax system is sensitive to considerations of pooling resources especially for families with children, where in families without children also contrib-

ute fairly. Tuition fees put more of the burden of funding post-secondary education on those families with children, despite the social benefits enjoyed by all families.

The O'Neill Report proposes an increasing reliance on redistributing tuition fees - making students who can afford high tuition fees pay more and then subsidize those who cannot afford it. However, replacing tuition fee revenue with public money will increase the transfer from high-income earners to low-income earners. We also need to consider the impact on these students who, under Dr. O'Neill's scenario, are left entirely reliant on their parents to have planned to pay for their education when they are not obligated to do so. In addition, the cut-off for financial assistance may actually squeeze out students whose family might be able to afford it according to some criteria, but for whom it has not been possible to prioritize or who chose not to do so. The only students who may receive assistance are those who unquestionably could not afford it.

Dr. O'Neill argues that a key consideration in funding determination is the capacity and willingness of taxpayers to underwrite a significant portion of the cost of the universities. He did not indicate any way that he assessed whether taxpayers are willing to contribute. Recent polling data indicates that Nova Scotia taxpayers are willing to contribute more than they currently do. A very recent poll found that 83 percent of Nova Scotians support reducing tuition fees and 88 percent think that post-secondary education should be a high or very high priority for the provincial government. In addition, the poll found that two-thirds of Nova Scotians feel that government funding should make up a larger portion of university funding, and nearly 60 percent are willing to pay higher taxes in order to improve affordability at universities in Nova Scotia.<sup>84</sup> As is argued in the next section, the fairest and most cost-efficient way to make university affordable is to lower tuition fees.

### Strategies to Increase Enrolment

The underlying assumption of the current government's approach to post-secondary education is that offering partial grants and capping debt, while tuition fees increase slowly under a cap, is enough to ensure that low-income students can continue to access university. But, there is research that suggests it is "*a mistake to infer that tuitions can continue to rise indefinitely without negatively affecting access [our emphasis], even with redistributive grant programs in place.*"<sup>85</sup> Moreover, there is evidence to suggest that higher tuition fees do not always result in more aid to lower-income students because universities have many cost pressures that often take precedence.<sup>86</sup> This approach is very risky and may result in lowering enrolment overall and will not begin to address issues of diversity and equity. Our goal should be to ensure that students have equal opportunity to participate no matter their family class. It should also seek to increase the participation of other groups that are under-represented in university are those from rural and remote areas, students with disabilities, and sole-support mothers.<sup>87</sup>

The government should increase funding to programs that have successfully increased enrolment of under-represented groups including First Nations people, and African Nova Scotians. New programs also need to be developed, which build on and model the successful programs already in place such as Dalhousie Universities' Transition Year Program or the Indigenous Black and Mi'kmaq Law program, which includes significant financial support.

**Recommendation:** The government should increase funding to programs that have successfully increased enrolment of under-represented groups and target funding to the development of new programs based on those successful models.

There is also a need to take a complete life-cycle approach that begins with significant in-

vestment in early learning and childcare and throughout the primary to 12 system. A whole system approach to early learning is important.

There is also the need to integrate the university and college systems more closely. For many, the NSCC is the most accessible avenue for post-secondary education and skills training. The NSCC provides free training in areas of Adult Learning for Nova Scotians who do not have a high school diploma, and through the Department of Community Services' Educate to Work program for people on income assistance. Efforts to ensure that there are additional opportunities for youth to attain a post-secondary credential while remaining in their rural community is critical. Youth who go away for university or college are less likely to come back to their rural community. The NSCC is also an important entry point for access to post-secondary education where a student can transfer to a university to complete a degree, for example. There is room to improve credit transferability and ensure that colleges continue to be accessible and affordable. A good example of effect credit integration is Mount Saint Vincent University's Child and Youth Studies Program.

**Recommendation:** The coordination between the community college system and universities should be increased and strengthened.

**Recommendation:** Serious consideration should be taken to cutting tuition fees in half as part of a retention strategy for rural youth, and as part of jobsHere strategy.

**Recommendation:** We underline the importance of life-long learning and skills training for retraining and recommend its closer integration with adult basic education programs. A strategy to increase the number of adults (older than the main cohort) participating in post-secondary education needs to be developed.

An increase in international student enrolment would bring multiple benefits to the province.

Each year, the initial economic impact of international students is \$191.7 million, including an initial injection of \$104.3 million of new money to Nova Scotia. When we consider the economic spin-offs, the economic impact rises to \$287 million per year. International students spend nearly double the amount spent for their benefit by government, university, and private sources. For every dollar spent by the government of Nova Scotia on their education and health care, international students spend over \$4.04 of new money in Nova Scotia.<sup>88</sup> This return on investment does not include the positive impact of retaining these students once they graduate. Nova Scotia is the only Atlantic Canadian province that has specific enrolment limits for international students. While the reasons for these limits are important considerations,<sup>89</sup> given current demographic pressures, it might be time to revisit this policy. In a recent survey of international students in Atlantic Canada, 40 percent of survey respondents expressed interest in permanent residence.<sup>90</sup> This retention rate could be improved.

Additional public funding to make university and college education more affordable and attractive to international students could help Nova Scotia meet its population challenges. We

could improve on the other benefits and services they receive. International students only receive medical coverage in Nova Scotia once they have lived here for 13 continuous months, and are only covered to receive medical services in the province.<sup>91</sup> This expenditure only represents a per-capita cost of \$87.67 per eligible international student, or \$0.12 per Nova Scotian.<sup>92</sup> Additional funding could provide Nova Scotia with a comparative advantage over similar markets with respect to international students.<sup>93</sup>

***Recommendation:* Upon arriving in Canada, international students should be eligible for Medical Services Insurance (MSI) provided by the government of Nova Scotia.**

***Recommendation:* More services are required for international students especially if enrolment is to increase. Public resources must be allocated for sufficient English-Second-Language services and other services required to support international university students. Such services should be provided on campus and in-partnership with the NSCC.**

***Recommendation:* International students should figure into the province's immigration strategy in order to improve their retention rate.**

## Concluding Remarks

The government has made repeated references to problems that require strategies to deal with them. In many cases, however, instead of attempting to solve them, the problems are accepted as intractable. One of them is declining enrolment. As we have demonstrated, there are strategies that we could develop to attract students to the province, and to convince our own citizens to stay and study.

What happened to building on strengths? Some of these strengths that could be built on are the successes of the community college system, learning and enhancing opportunities for non-traditional students such as has been done at Mount Saint Vincent University<sup>94</sup> or Aboriginal students at Cape Breton University. Nova Scotia is a leader in facilitating credit transfer from the Nova Scotia Community College to universities. What about our cutting-edge research centres?

It is the case that tuition fees are only one issue to be considered when examining accessibility of post-secondary education. However, it is not clear that this government seeks to encourage more people to get a university degree and ensure the system is open to everyone regardless of their starting circumstances. This should

have figured prominently in any review of post-secondary education, along with questions of quality, adequate funding, as well as a consideration of how universities and colleges fit into a broader strategy spanning from early childhood development to life-long learning. According to O'Neill, any increases in enrolment would occur in the medium to long term. What is being traded-off by a focus on short-term cost-savings?

Making substantive changes to the post-secondary education system, should consider the implications for the entire system — including colleges, private institutions, and it should involve meaningful, broad-based consultations.

When asked who they trusted most to develop standards in post-secondary education, 50 percent of respondents chose professors and support staff and 19 percent chose students, while only 11 percent expressed confidence in university presidents. Even fewer Nova Scotians chose the provincial government, with only 9 percent declaring that they trusted the government the most.<sup>95</sup> A different approach that seeks to protect this system as a common good might go a long way to restore that trust.



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## IN OPPOSITION, THE LIBERALS SAID THIS:

*“High tuitions and low government funding are resulting in Nova Scotia students leaving our province to pursue their post-secondary education elsewhere.*



*We should be doing everything we can to encourage our young people to learn and work in Nova Scotia.”*

Hon. Stephen McNeil  
Leader of the Liberal Party  
November 23, 2011

## NEW GOVERNMENT, NEW OPPORTUNITIES?

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**IN OPPOSITION, THE LIBERALS SAID THIS:**

*“Why is it okay to be on the side of students when you are in Opposition and then ignore them when you go into government?”*

Hon. Kelly Regan,  
Minister of Advanced Education  
December 01, 2010

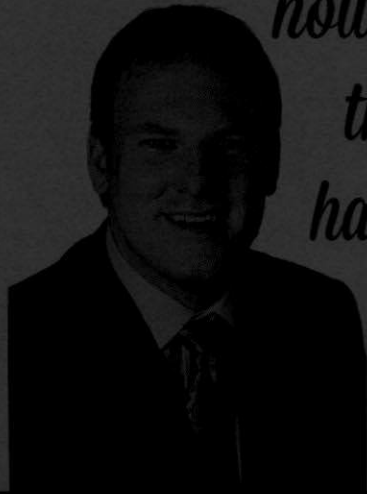


**NEW GOVERNMENT, NEW OPPORTUNITIES?**



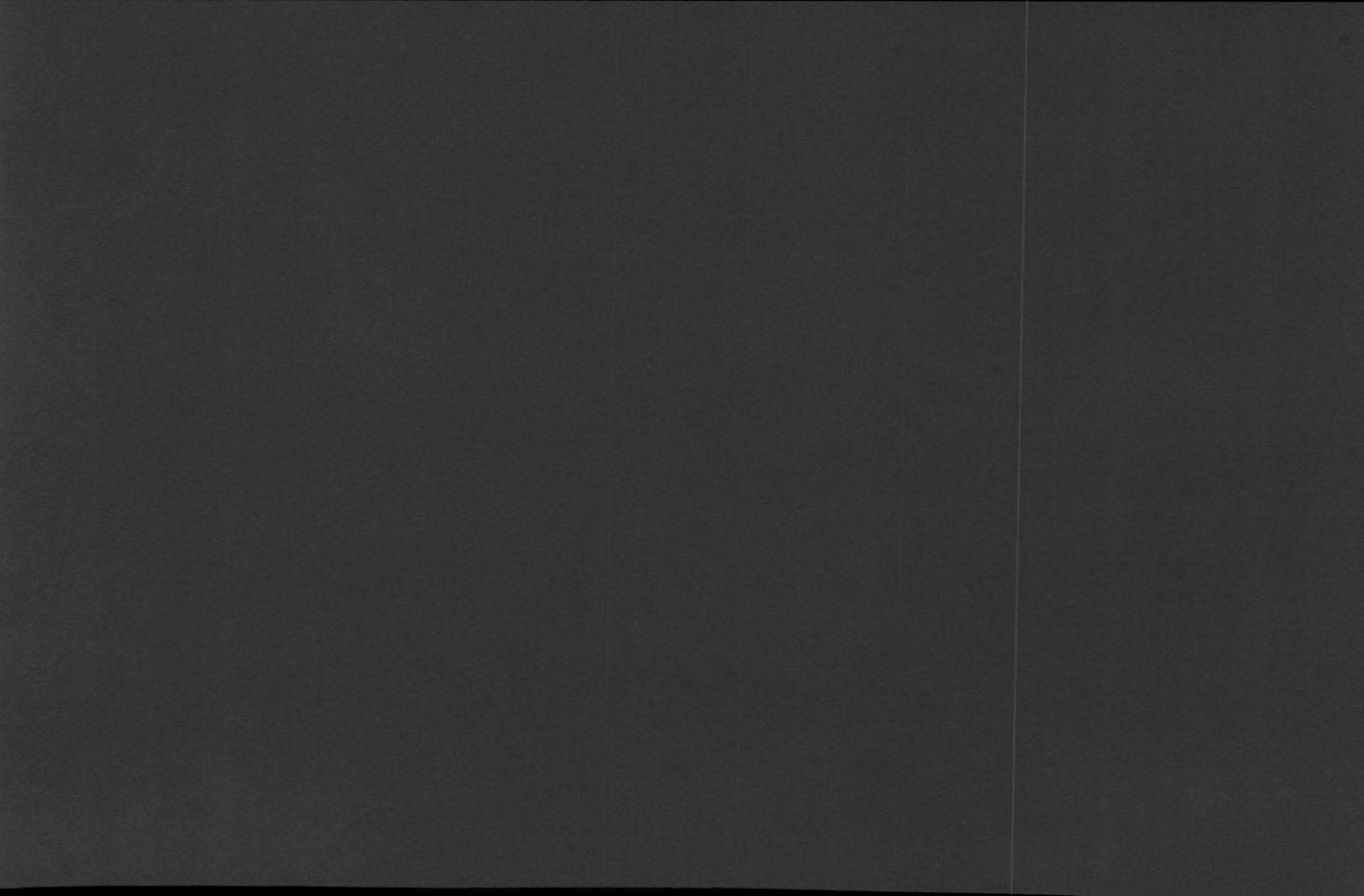
**IN OPPOSITION, THE LIBERALS SAID THIS:**

*“Those are choices that the government now has the ability to make tomorrow, they’ve just admitted that. They also have the ability to ensure that tuition fees at universities don’t rise.”*



Hon. Andrew Younger  
April 04, 2011

**NEW GOVERNMENT, NEW OPPORTUNITIES?**



**IN OPPOSITION, THE LIBERALS SAID THIS:**

*“We would certainly like to see a more aggressive reduction in tuition.”*



Hon. Diana Whalen  
Minister of Finance

Speaking on a Proposed Tuition Freeze  
July 06, 2006

**NEW GOVERNMENT, NEW OPPORTUNITIES?**

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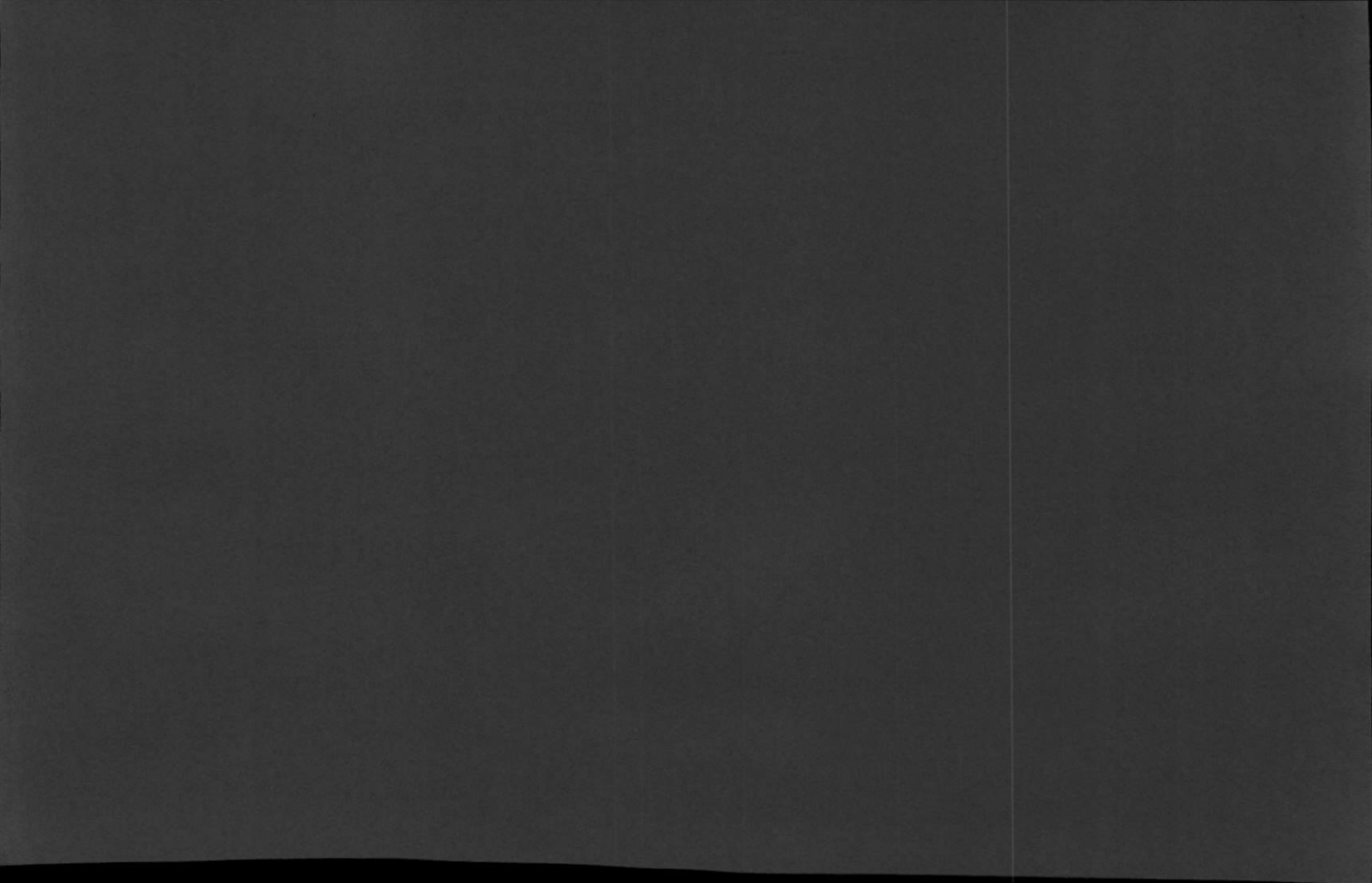
**IN OPPOSITION, THE LIBERALS SAID THIS:**

*“This government sees post-secondary education funding as a burden, rather than an investment, which is completely backwards.”*

Hon. Zach Churchill  
Liberal Advanced Education Critic  
October 31, 2012



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**IN OPPOSITION, THE LIBERALS SAID THIS:**

*“We always have the ability to improve and to move forward with a retention program that I think can be much more based in accessibility and in lowering tuition rates.”*

Hon. Leo Glavine  
October 05, 2009

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