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Private Universities: Privileged Education

Destroying Accessible Education in Ontario

Canada's existing chartered universities are regulated, publicly-funded, non-profit institutions. But this is about to change. The Ontario government will shortly enact legislation establishing 'private', degree-granting post-secondary institutions "including for-profit and not-for-profit institutions." What is disturbing about this announcement is that for the first time ever in Canada, privately-owned and operated, for-profit corporations will be allowed unregulated degree-granting status. Ontario will be a testing ground for the first two-tiered education system since the establishment of Canada's public post-secondary education system. This could mean a high quality post-secondary system for the wealthy and an underfunded system for the rest -- the end of accessible education in Canada.

Public versus Private

The difference between a 'private' university and a 'public' one is conventionally understood to depend on sources of funding.[1] A publicly funded institution receives direct capital or operating grants from provincial and federal taxes. A privately-funded institution relies on user-fees, private contracts and donations and endowment income to cover costs. Furthermore, private universities can be either not-for-profit or for-profit entities.

Private, Not-for-Profit

The most well-known examples of private non-profit universities are in the United States of America. The bulk of U.S. private universities such as the prestigious Ivy League institutions (Harvard, Yale etc.) are actually non-profit corporations. In Canada, as a result of billions of dollars in cutbacks in federal transfers to the provinces and provincial cuts to university operating grants, many universities have been creeping towards the 'Harvard' model. Particularly since the 1985 federal budget (Brian Mulroney's first as Prime Minister) the public system has been deliberately and steadily undermined through federal and provincial underfunding, skyrocketing tuition fees and 'public-private partnerships', code words for private funding and corporate influence and control.[2] The result of these destructive policies is that post-secondary institutions have become more and more inaccessible.

Private, for-profit: An Ontario Precedent

Given this creeping privatisation and inaccessibility, some might argue that there's nothing new in the Ontario government's announcement. But what makes it so disturbing is that a very new and dangerous model is about to be introduced to Canadians: private and for-profit universities. Ontario will become the first province in Canada to allow unrestricted, degree-granting status to privately-owned and operated for-profit corporations.

Ontario's Private 'Colleges'

There are already hundreds of registered privately-funded vocational schools in Ontario, some of which call themselves 'colleges'. These are actually privately-owned businesses operated as commercial for-profit enterprises. They receive no direct public operating or capital funding but they must be registered under the *Private Vocational Schools Act*, administered by the Ministry of Education and Training. With the proposed changes, these companies could become legally recognised universities.

The University of Walmart?

There are two corporations that are vying to be Canada's first for-profit universities: The University of Phoenix in Vancouver and Lansbridge University (formerly Unexus University) in New Brunswick. These institutions are privately owned and operated commercial enterprises. Phoenix is owned by the Apollo group, Lansbridge by Learnsoft Corporation of Kanata Ontario. However,

"The recent decision by the Ontario government to endorse the establishment of private secular universities has been met with predictable outrage from certain camps....They claim that education is only a right, not a business for people to reap magnificent profits."

- Fraser Institute public affairs analyst Michael Taube, *The Globe and Mail*, May 11, 2000.

"Private universities draw on public resources without enhancing either the quality or accessibility of a university education. Yet in Ontario they are being welcomed with open arms - not as centres of academic excellence, but as decoys employed by the government to deflect attention away from its own legacy of undermining the public system through years of underfunding."

- "Decoys Instead of Dollars for Postsecondary Education", Ontario Confederation of University Faculty Associations Research Report, May 2000

neither are in fact 'universities' because in Canada businesses are not authorized to grant university degrees. The Harris government will change that.

Why 'Public' is Better

Let's look at two important reasons why allowing private companies to grant degrees is so dangerous:

Democratic Control

One of the biggest concerns for Canada's academic communities is democratic accountability and control over education. Within the post-secondary community 'democracy' is understood to mean, among other things, the right to organise independent student unions, the regulation and reduction of tuition fees, support for curricula that reflect the cultural and gender diversity of the Canadian population, opposing corporate influence, an autonomous student press, equitable admissions standards and representative Boards of Governors. Under the current public system some degrees of democratic control are evident in these areas. And there is a tradition of decision making in the post-secondary sector that includes faculty, alumni, students, administrators, members of the community and government. That's because the basic philosophy of a public system is that education is a right, not a privilege and it should benefit all members of society.

However, this tradition of democratic control and community decision-making will be seriously threatened with the introduction of for-profit universities. A for-profit university is owned and operated by investors, not by all the citizens. In a private business, decisions are made in secret by a handful of individuals, not by a board that is democratically elected or appointed.

Cost: Education is a not a Business!

The basic purpose of a for-profit business is, by definition, to generate income for its shareholders. It follows that the basic purpose of a private university is 'return on investment' or in the words of the Fraser Institute "to reap magnificent profits." Since such profits can only be realised with high user-fees, private universities normally charge outrageously high tuition and service fees. For example The University of Phoenix charges $40,800 for an undergrad degree and up to $20,400 for a grad degree. Lansbridge charges $28,000 for an MBA.

Educating the wealthy... Excluding the Rest

By conservative estimates the total annual cost of a private for-profit post-secondary degree will be $40,166 or $160,664 for a 4-year undergraduate degree. This is based on the sum of two figures: the average tuition fee at US privately-funded institutions is US$15,380.[3] or about $23,400.00 in Canadian dollars. Add to this $16,766 - the cost of books and supplies, room and board, transportation and other basic costs of living for a single individual[4]. This figure also assumes that the student does not go on to do a graduate degree or a professional degree like medicine or law. The implications here are obvious: in order to attend the 'elite' private university, an average student will have to incur a staggering life-long debt. Private universities will be exclusive places of privilege, open only to those who can afford to pay.

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[1] From a strictly legal interpretation, Canada's chartered universities (including Ontario College of Art and Design) are not 'public' institutions in the sense that they are not government organs or agencies. According to the definition upheld by a majority of the Supreme Court of Canada in *McKinney v. University of Guelph* in 1990, universities are 'private' because they are: legally autonomous - even though their scope of action is limited by regulation or because of their dependence on public funds; and self-governing - each has its own governing body, manages its own affairs, allocates its funds and pursues its goals within the legislated limits of its incorporation. Larry Johnston, "Private Universities in Ontario" Ontario Legislative Library, *Current Issue Paper 203*, March 2000, page 41.

[2] For example, Dalhousie University's Masters of Information Technology Education (MITE) program was developed with ITI ("Canada's largest source of IT professionals"). Tuition fees are $38,000 - $23,000 for ITI and $15,000 for Dalhousie. *Education Monitor* Vol. 3, No.2, Spring 1999, page vi.

[3] *The Chronicle of Higher Education Almanac*, September 1, 2000, Vol. XLVII, No.1, page 48

[4] *Welfare Incomes 1999,* National Council of Welfare Reports, Minister of Public Works & Government Services Canada, Autumn 2000, page 69.

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Income Contingent Repayment Loan Schemes

An 'income contingent' repayment loan scheme (ICR) is not a student-aid plan but a funding model for post-secondary education. It is based on the belief that the individual is the primary beneficiary of a post-secondary education and should bear the full cost. The ICR is neither a progressive and fresh alternative to the Canada Student Loans Program nor is it intended to improve access to post-secondary education.

An Old, Outdated Idea

In 1955, the U.S. economist Milton Friedman devised ICR as a way to reduce the role of the state in financing education. Instead of public funding, Friedman proposed that there be full cost-recovery tuition fees. In order for students to pay for these vastly higher tuition fees, he proposed that they have access to large loans. Finally, he proposed that, in order for repayment of the loan to be manageable, the size of loan payments be based on each individual's level of income after graduation (ie. income contingent).

For Friedman and those who advocate ICR, the larger political and economic principle guiding this funding model is stark: primary, secondary and post-secondary education is seen as a product like any other and should be priced and produced subject to the dictates of the market.

"It's not a form of student assistance"

Starting in the mid-1990's, proponents have sought to gain support for ICR by exploiting the student debt crisis and by playing down the social benefits of an educated citizenry. Rather than being up front about their true purpose — to shift the cost of education from the state to the individual — they have tried to 'sell' ICR loan schemes as a flexible and fair student-aid plan that would allow student loan recipients to pay off their loans as their income allowed.

But ICR is not a student aid plan. Even policy analysts involved in designing and administering ICR models concede this point. The Government of Australia, for example, describes its ICR in these terms: "The purpose... is to raise revenue from the recipients of higher education for return to the system as part of... funding of higher education; it is not a form of student assistance."[1]

Fee Hikes, No Interest-Relief

Virtually all ICR models that have been considered in Canada and adopted in other parts of the world have had tuition fees increasing significantly. In fact, the ICR scheme is merely a way to ease the impact of fee hikes and hasten the underfunding of education. Most models replace loan plans that are interest-free during the period of study (such as Canada Student Loans) with loans that collect interest from the moment they are provided.

The Poor Pay More

Under ICR, borrowers would repay their loans as a percentage of their incomes upon completion of study. Graduates with lower levels of income would repay their loans over a longer period of time, while those in high-paying jobs could repay their loans quickly and avoid interest payments. Those who could afford to pay their tuition fees up front would avoid the high interest rate payment after graduation, and end up paying less for post-secondary education. In Australia, for example, if a student can afford to pay their income contingent loan at the beginning of every academic year, they receive a 25% discount.

A Lifelong Debt Sentence

ICRs would disproportionately hurt women because it would take them, on average, considerably longer to pay back their interest-bearing loans. Because women leave the workforce due to pregnancy and still earn less than men, repayment rate difficulties would be more pronounced. Under one model considered in Canada in 1994, 43% of women would not be capable of paying off their debt after 25 years of repayment.

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ICRs: A Canadian Chronology

1964
The introduction of the Canada Student Loans Plan. The Federation's predecessor calls for needs-based grants.

1969
The Council of Ministers of Education approves, in principle, an ICR coupled with tuition fee increases.

1984
The Ontario government's Bovey Commission supports ICR along with increased tuition fees. "From the general public's viewpoint, such a plan reduces the taxation burden for those persons who do not participate directly in the university system."

1991
The federal government's Smith Commission advocates increased tuition fees coupled with a self-financing ICR.

1993
The Council of Ontario Universities proposes an ICR along with a tuition fee increase of up to 50%.

1994-95
The federal government's Social Policy Review proposes the massive withdrawal of federal funding for post-secondary education accompanied by an ICR.

January 25, 1995
The Canadian Federation of Students organises one of Canada's largest national student demonstrations against ICRs and the cuts to education.

May 2, 1995
The Federal government takes ICR off the table.

1996
The Ontario Tories promise to implement an ICR. It has yet to do it due to lack of support from the lending institutions and other governments.

1997
The federal government announces that ICR is being considered again, but the proposal dies due to overwhelming lack of support.

2000
The Canadian Alliance calls for ICR schemes.

The International Evidence

In other countries, ICR schemes have been accompanied by higher tuition fees, higher debt loads and extended repayment periods. In 1989, Australia introduced ICR as part of a package of new tuition fees more than 500% higher than the previous administrative fee of $263. Despite a government promise that tuition fees would rise with the Consumer Price Index it broke this commitment by Year Three. In Year Seven, the government introduced a three-tiered differential fee structure, representing increases in tuition fees between 35% and 125% in one year alone.

New Zealand (1993) and the United Kingdom (1998) followed Australia's lead, introducing both tuition fees and an ICR scheme simultaneously.

The National Tertiary Education Union in New Zealand estimates that by 2005, student debt will be higher than the entire national debt of the country.

In Canada

Despite attempts to implement ICR in Canada in the last three decades, Canadians have ultimately rejected them.

The Liberal & Tory Records

In 1995, the federal government shelved its ICR proposal after the Federation mounted a massive campaign against it. According to two leading Canadian journalists "to the public at large," the government's proposed reform for a federal role in the post-secondary education "simply seemed like a bald-faced attempt by government to double tuition fees."[2] In 1997, the federal government tried again to revive ICR but lending institutions and most provinces rejected the scheme as either regressive or unworkable.

The Ontario government proposed ICR in 1996 to accompany a 20% funding cut to post-secondary education. It has been unable to implement this promise due to widespread opposition both from the lending institutions, other governments and students.

"Income-contingent repayment means learning with lifelong debt. It doesn't solve the problem, it just extends the repayment."
Stephen MacDondald, Executive Director, Learning Assistance Division, Advanced Education and Career Development, Alberta, 1997

"It doesn't reduce debt, it just extends it."
Jim Vanstone, Director, Student Support Branch, BC's Ministry of Education, 1997.

"To be honest, I don't think there's been an appetite for income-contingency or [income-based repayment] for some time."
Tom Lumsden, Product Manager, Personal Credit Services, Royal Bank, 1997

Reform/Alliance Party

The only post-secondary education policy outlined in the platform of the Canadian Reform/Alliance is support for ICR. This is part of an overall package to dismantle the federal government dramatically. The effects would be clear: with the underfunding of post-secondary education at the federal level, students will see their tuition fees rise rapidly, their student debt loads soar and the repayment period extended on interest-bearing loans.

The Real Alternative

There is a student debt crisis in this country. Already, average tuition fees have increased by 126% in the last decade, and the average debt load is $25,000. The time has come to move beyond debt-management and implement measures to reduce and eliminate debt, not drag out repayment periods on even larger loans, as the Reform/ Alliance is proposing.

The Federation has stopped ICR schemes before. Now is the time to kill this outdated proposal forever and implement policies that directly reduce debt: a national system of grants and a real and substantial reinvestment in post-secondary education.

[1] Robert Green, Assistant Secretary, Programs and Operations Branch, Australian Department of Employment, Education and Training, quoted in C. Duncan "A HECS on Students: An Income Contingent Loan Repayment Plan" Canadian Federation of Students, 1992, pages 28-29.
[2] Edward Greenspon, Anthony Wilson Smith *Double Vision: The Inside Story of the Liberals in Power* Toronto, 1996, page 193.

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Registered Education Savings Plans: A National Grant Program for the Wealthy

The federal government's existing system of national grants: public subsidies for private savings

To address the growing problem of the soaring cost of education, the federal government has recently introduced two national grant programs: one is in the form of indirect grants — a Registered Education Saving Plan (RESP); the other is in the form of direct grants — the Canada Education Savings Grant (CESG).

The Registered Education Savings Plan

The RESP is an investment vehicle that allows a contributor to save for a child's post-secondary education. Unlike Registered Retirement Savings Plans (RSPs), the RESP contributions are not tax deductible. However, the savings grow tax-free until the beneficiary is ready to go full-time to college, university, or any other eligible post-secondary educational institution. Under the current rules you can contribute a maximum of $4,000 per year for a lifetime limit of $42,000. Contributions can be made for 21 years and the plan must be collapsed after 25 years.

If you are wealthy enough to put aside $2000 per year, from the time your child is born until the end of the year in which your child turns 17, the government of Canada will give you a tax-free grant of $7,200 towards your child's education. That's a guaranteed tax-free gift of $400 every year for 18 years.

The RESP is in fact a national system of indirect grants: the income generated by the RESP has accumulated tax-free. The foregone tax revenue is tantamount to a grant payable only to RESP investors.

The Canada Education Savings Grant

With the 1998 Federal budget, RESPs became more attractive because in addition to an indirect grant in the form of foregone tax revenue, the federal government said it would offer a direct grant – the Canada Education Savings Grant (CESG) – to any parent who had sufficient income to purchase an RESP. The Government of Canada pays directly into a beneficiary's RESP 20 percent of the first $2,000 in contributions made into an RESP on behalf of an eligible beneficiary each year. This means the Grant can be as much as $400 each year per beneficiary until the end of the beneficiary's 17th year, which means a total lifetime maximum grant of $7,200 per child

In other words, if you're wealthy enough to put aside $2000 per year, from the time your child is born until the end of the year in which your child turns 17, the government of Canada will give you a tax-free grant of $7,200 towards your child's education. That's a tax-free gift of $400 every year for 18 years.

With the 1998 federal budget legislation, if none of the parent's children take advantage of the RESP, the grants must be repaid, but not the income generated by the grant money, which has accumulated tax-free. Under certain circumstances, where no child pursues post-secondary education, the money can be rolled over into the parent's RRSP.

Before the 1998 budget changes, you risked losing all of the investment income in the plan if your child did not pursue post-secondary education. Depending on the plan, the investment growth would go to a pool to finance the education of other children or be donated to an educational institution.

How Much Has the Federal Government Disbursed So Far?

Because the CESG is a statutory expenditure, there is no predetermined budget for the program: if every single eligible Canadian invested in an RESP, the federal government would have to pay as demanded.

Between 1998 and May 2000 the government of Canada spent over $454,069,661 in grants. It expects to spend another $70,418,244 by the end of this year and the forecast for 2000-2001 is $435,000,000.[1] In other words the federal government's projected accumulated expenditure for the Canada Education Savings

"RESPs are a good deal despite the risks. Who can argue with what amounts to an up-front 20-percent return ($400) on a yearly $2,000 contribution?"

- Shirley Won, *The Globe and Mail, The Report on Business*, Saturday, September 25, 1999 page B5.

"Want to make a kid's eyes really light up on Christmas morning? An RESP could be just the thing. Imgaine how grateful that special girl or boy will be to receive a little something toward what will undoubtedly be an attrociously expensive postsecondary education."

- Rob Carrick, *The Globe and Mail, Money and Markets*, Tuesday, December 21, 1999 page B19.

"When Ottawa will pay you $400 per year...simply for saving $2000 per year yourself, who can refuse? Especially when getting the money is so simple."

- Geoff Kirbyson, "Pro: Why open an RESP", *IE: Money*, August 1999

Grant Program is expected to be some $959,487,905 by the end of 2001 – almost $1-billion.

If every eligible parent participated in the CESG, and invested the maximum $2,000 per year the federal government would spend every year $2,885,617,200.[2]

The Inequity of the CESG: A National System of Direct Grants for the Wealthy

This national system of indirect and direct grants that is currently in place is unfair and should be scrapped. Both the Registered Education Savings Plan and the Canada Education Savings Grant reward those who need the least help: the children or grandchildren of those who are wealthy enough to save. There are four 'wealth-care' rewards to the RESP/CESG:

First, the RESP savings generate income that is tax-free: earnings grow tax-sheltered until taken out by the student for educational purposes.

Second, the federal government guarantees an annual 20% return on investment for those who have enough disposable income to invest in an RESP.

Third, public funds could subsidise private universities outside Canada. The beneficiary may be eligible even if she attends an educational institution outside Canada that offers post-secondary schooling and at which the beneficiary is enrolled on a full-time basis.

An "Almost Perfect Tax Deferral"

Fourth, when the student begins to use the RESP for education, both the RESP income and the grant income are effectively tax-free. Technically the income accumulated on the subscriber contributions and the grant as well as the grant itself become taxable. However, because the student typically has little other income, he or she effectively pays little or no tax on RESP income.[3] Because the income is taxable to the student instead of the high-income parent, the RESP has been called an "almost perfect tax deferral."[4]

Scrap the RESP/CESG, Establish The Canada Student Grants Program

Where does the Canada Education Saving Grant leave low-income parents and their children? Absolutely nowhere, and the inequity here is clear: tax dollars and tax breaks are subsidising those who are already in a position to save instead of ensuring access for those most likely to be denied entry in the system of post-secondary education for economic reasons.

Because of the inherent unfairness and elitism of these federal programs, the Canadian Federation of Students demands that they be scrapped. The existing national system of indirect grants, the RESP program, should be terminated and the existing national system of direct grants, the CESG program, should be cancelled. In place of the elitist RESP/CESG we propose the establishment of an equitable needs-based system of national direct grants – the Canada Student Grants Program. The national grants program proposed by the Canadian Federation of Students will be equitable, will cost no more than the current elitist system, and will provide greater access to post-secondary education.

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[1] Canada Education Savings Grant, *Quarterly Statistical Review*, May 2000.

[2] The sum cited is derived as follows: in 1998 the number of children aged 0-17 was 7,214,043. This number is multiplied by the maximum grant of $400. Canada Education Savings Grant, *Quarterly Statistical Review*, May 2000. Based on Statistics Canada, *Annual Demographic Statistics 1998*, Catalogue #91-213-XPB.

[3] A fact actually cited on the web site of the Registered Education Savings Plan program: http://www.hrdc-drhc.gc.ca/hrib/learnlit/cesg/resp/resp.shtml

[4] Geoff Kirbyson "Pro: Why Open an RESP" *IE: Money*, August 1999, page 20.