

UNDERSTANDING HIGHER EDUCATION FINANCE

INTERVIEW WITH ALEX USHER PRESIDENT, HIGHER EDUCATION STRATEGY ASSOCIATES

As part of a project on higher education finance supported by the Bill and Melinda Gates Foundation, Nate Johnson interviewed a number of experts and leaders to gather different perspectives on how major budget choices are made. The interviews have been condensed for publication so that the key insights are available to anyone who is interested.

This interview with Alex Usher, a Toronto-based, internationally recognized expert in higher education finance and quality measurement, addresses incentives for enrollment, local versus out-of-area student enrollment, local governance versus central governance in higher education planning, and performance-based funding.

Most of the Canadian provinces have some kind of funding formula that provides additional incentives for enrollment, but that hasn't led to provinces either increasing tuition for out-of-province students or trying to enroll more students as you might think. What kind of institutional behaviors have you seen around the current set of financial constraints?

This [appropriations to institutions] is all worked out over the space of a reasonably long period of time. They'll say, "We expect you to start this new program," but of course that's been four years in the making. These aren't capricious kinds of things that come as a surprise to anyone.

The provinces do have enrollment measures, and again, the two provinces that matter here would be Ontario and Quebec, which is two-thirds of the country in terms of the enrolment. Both have weighted student enrollment formulas, so X for an art student and 2X for a science student and 4X for a science graduate student, etc. These are long-standing arrangements; Ontario's is about 40 years old. Quebec's, I would think is at least 30 or 35.

Those formulas cover about 75% of the transfer of funds to institutions. It's a rolling average, so sudden changes in enrollment don't change anything. I think it's a three-year weighted average in Ontario and a five-year weighted average in Quebec, or something like that.

Then there's another 25%, which is based on other factors. There'll be an extra amount of money if you're in Northern Ontario where distance is an issue, and an extra amount if you're serving a francophone population. Many of these measures were one-off things that were there to solve a particular problem at a particular time. Not all of them make a lot of sense anymore.

The range among U.S. states in the proportion of costs covered by tuition is 20% to 80% or 90%.

Our range isn't that big. It's from 15%-50%. The national average is about a third—30%, something like that.

That tuition revenue then is also essentially enrollment funding.

Yes. Almost nobody thinks of it that way here, but yes. That's absolutely true.

Do you think that there's a difference in terms of the sorts of behaviors or policies or programs that turn up at postsecondary institutions between how the tuition revenue works and how the enrollment-driven public subsidy works?

Part of the issue here is that the student population is changing. Most provinces have seen, particularly in the last four or five years, a decline in the number of domestic students. That doesn't necessarily change how much money they're getting from government because it's not a per student amount here. Rather, your weighted student numbers determine the percentage of the total higher ed. budget your institution will receive. The legislature sets the total amount of money that's going to be given out in a given year, and the funding formula is an allocated formula. As long as everybody is declining at the same rate, it's okay, you won't lose funding.

But what's happening is—and there's been a real shift— big increases in international students, who pay something closer to a market rate. We've seen the number of international students double in the last seven years or so; it's double-digit gains each year, or pretty close to it. That's gradually changing. You see everybody moving to that.

It's not dissimilar from what you saw in the U.S. in the early 2000s: a sudden shift towards more and more out-of-state students. People realize you can get a heck of a lot more than the marginal dollar out of them than you can get on an in-state student.

The difference is in Canada out-of-province students usually pay the same as in-province. We only have a couple of provinces with out-of-province fees. For us, international students have long played the role that out-of-state students played for U.S. 4-year publics.

We're not at U.K. or Australian levels of enrollments or dependence on international student fees. Over there I think it's 20%; here it's about 10%, but increasing every year.

The U.S. is the biggest destination for foreign students, but as a percentage of the overall enrollment it's under 5%, but still bigger by an order of magnitude than any other country.

In the US, financially, there's no difference to most institutions between an out-of-state student and an international student. That's not the case up here, for the most part.

The provinces have the authority to set tuition, but are they constrained by federal law or by the revenue sharing or financial aid to accept out-of-province students?

No, there's no federal law. It's more custom. Quebec is the only province that really does it. What they do is charge out-of-province students what they would have paid if they'd stayed out-of-province. In Nova Scotia, there's something a little bit similar in that everyone pays a certain fee but in-province students get a rebate that makes things cheaper.

Do they get money from the funding formula for out- of-province students?

They get tuition revenue. Students aren't treated any differently. They're still a student unit as far as the funding formula is concerned.

But why not? Is that just history, custom?

I don't think it's ever occurred to anyone not to do that.

I don't think it would occur to any U.S. state to include out-of-state students in their funding formula. That's interesting. The provinces are also much more self-contained probably because of geographic, demographic separation.

Right. The only place where we have a lot of mobility is in the maritime provinces. It's still tiny. If you look at New Brunswick, Nova Scotia, PEI, it's something like 20% of the students do cross borders there. The numbers are balanced enough that everybody feels it's just too complicated. Why bother? They take our students, we take their students. Who cares? Though that said, all of them have provisions in their student aid systems that disadvantage students who leave the province.

Elsewhere in the country, interprovincial mobility is lower. Maybe 5-10% of students elsewhere leave the province. Distances are just too big, and in Quebec's case there's a language barrier which affect both inwards and outwards mobility.

The criticism in the United States about enrollment-driven funding is that the incentives it creates and the business model it creates are all about bringing students in and not about getting them through quickly, efficiently, or getting them into jobs. Is there any of that discussion happening in Canada? Or in other countries that you may have studied?

Nobody thinks we have a huge problem with completion, let's put it that way. Compared to the United States, we don't. People who start, complete. They don't necessarily complete in their same program, they don't necessarily complete at the same institution, but if you look five years out, you're talking 80%-90% of university students either have a degree or are still somewhere in the system.

How about the vocational, polytechnic-type schools?

It's a lower number, but a lot of them will pick up people who went to university and maybe that wasn't a good fit. They're still performing a useful role in the system that way. We're really bad at counting the grad numbers, but I think we've got data from enough points so actually this isn't a huge problem.

There have been some discussions here in Ontario as we're starting to talk about changing our funding formula. One of the discussions is, as you put it, the tuition fees take care of the enrollment. Instead of the government funding being in an enrollment-weighted formula, why isn't it a graduate-weighted formula to pay for graduates and not students? It's under consideration.

The other concern could be a misalignment between the kind of degrees that the students are getting and the jobs that are available.

Where there has been some discussion, as there has been in the U.S., is about the employment rate of graduates from a school. But in Canada that's gotten very little traction simply because our unemployment rates are very regional. Even within a province, the big urban centers are usually okay and the rural areas are not very good. I think the geography stuff here is so close to everybody's minds everybody realizes it's not really a particularly smart way to go about things.

The incentives here and often the realities are you build up your low-cost majors and courses, the typical introduction to business major with 500 students that all pay the same tuition as the nursing student in a class of ten, and certainly among the for-profit institutions you want to maximize the most tuition that the market will bear at the lowest institutional expense that you can get away with.

Everybody does that here. That's not even necessarily gaming the system. People have worked out what students pay for a small third- and fourth-year class, and it's also what, frankly, the professors want to teach, so we do what we need to do to make those classes work. What that usually means is having very

large first-year classes which are hugely profitable and take that money and subsidize the expensive stuff.

Packing in undergraduates and skimming off money is also the way you generate money for research. I don't think there's a public university system in the world where that's not the case. The only places where that's not true is Oxford and Cambridge, where they get graduate programs, professional master's programs, to subsidize the undergraduate system, but that's really the only place in the entire world I know of that works that way.

In some countries, like China and Korea, they're not federal in the same way, but they're rethinking their relative roles—local governance versus central governance in higher education planning.

China has kind of two parallel systems. Basically, they have top universities, (and this is true in India as well), for which the national government has responsibility, and then regional universities are dealt with by the provinces. There's some overlap in things like student assistance which is entirely provincial. It's a weird kind of binary parallel system in those places. Mostly in China the cost of system growth was downloaded to the provinces. The national institutions—the prestige institutions—were basically told not to expand. They got a whole bunch of new money but were told to spend it all on research and new staff.

With a country that size expanding higher education to the middle class, it's not something you can do with a handful of national universities. Do you have any insights about policies that you've seen that seem to be working better than others, in terms of ensuring that higher education doesn't just reinforce the negative sorting of people into the same status that their parents had?

It's sort of remarkable how few countries actually care about equality of opportunity in higher education. Many say that they care, but there are so few countries that actually measure stratification in any kind of concrete way or tie policy to it. It's an icon that you genuflect toward, and this is why we have free tuition, because it's really important for access. Scotland has free tuition. If you ask them why, they say it's about access. You can ask, "Why is your access actually worse for low-income Scottish students than it is for low-income English students, who pay 9,000 pounds?" They'll keep giving you the same line: "it's all about access," regardless of the evidence. There's literally no answer to that question. I think that's true in most of Europe.

Similarly, you get kind of a flip view in the eastern part of Europe, where it's a very merit-based system. Those that do really well on their matriculation exams get free tuition in public universities while others have to pay fees to those same unis or go into a private institution. People have said for 10 or 15 years, "You're just giving that money away to rich people who would do well anyway. Why are you doing that?" The answer is basically because exam system the only way they could think of to cut down on corruption in the system. Before they had centralized exams, in the early 1990s, there was a lot of corruption with respect to who got to go and who didn't. People paid bribes to get into institutions—especially if, as in Russia, it meant you could avoid the draft. In places like Bulgaria pre-1989, if your parents were bourgeois you couldn't go to school. Party members got quotas of spaces in hard-to-get-into programs. Some people don't like access programs that are seen to be "social engineering," even if to us they look pretty a commonsensical way to deal with intergenerational inequality. This is a problem.

Have you had any recent or important insight about how money works in higher education that I haven't asked about, or that I should be asking you or other people about?

I'll tell you one thing that has been missed in the U.S. debate that I think needs a little bit more investigation and that is performance-based funding. A lot of the U.S. studies have involved looking at state-level programs where the amount of money at risk is often pretty minimal. But in Europe, where performance-based funding has been in place for a long time and has had much larger sums of money attached to it. Again, part of it is because lots of those countries have no tuition, and therefore people use

performance-based funding in Europe to make institutional income behave more like they think it would if there were an actual market.

Nobody's really tested the theory where a really significant amount of money is attached to completion or completion for low-income students.

That's right. The key question in Tennessee to me is less is it 100% outcome-based, it's more, okay, now that it's 100% outcome-based, how does that vary from the system you had before? It may be that, okay, the base is completely different, but actually the outcomes are not that different, so why would anyone expect the institution to change its policies very much? Whereas in Europe, you've got a number of countries where the proportion of money at risk is very, very big, at least theoretically. Denmark is obviously one place that you would look at, but most of the German Länder have significant sums at risk.

A lot of the performance measures in Europe are around research, so it's a different kind of thing that they're trying to do, but Denmark is the one that put the most money on graduation (100%), and I'm always surprised that there's not more literature out there on what's happening in those places.

In addition to his work at Higher Education Strategy Associates, Alex Usher is Editor-in-Chief of Global Higher Education Strategy Monitor, author of the One Thought to Start Your Day blog, and coauthor of The Price of Knowledge.