President for a Day: Students' Preferences for Dealing with a Budget Crisis

Higher Education Strategy Associates Intelligence Brief 3

Joseph Berger
Alex Usher

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HIGHER EDUCATION STRATEGY ASSOCIATES

Higher Education Strategy Associates (HESA) is a Toronto-based firm specializing research, data and strategy. Our mission is to help universities and colleges compete in the educational marketplace based on quality; to that end we offer our clients a broad range of informational, analytical, evaluative, and advisory services.

The Intelligence Brief series is designed to provide readers with up-to-date insights from our proprietary student panel and our Policy Warehouse.

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Contact:

Higher Education Strategy Associates
207-20 Maud Street, Toronto, ON M5V 2M5, Canada
phone: 416.848.0215
fax: 416.849.0500
info@higheredstrategy.com

www.higheredstrategy.com

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Table of Contents

Table of Tables

INTRODUCTION

As governments across Canada orient themselves toward deficit reduction, it is becoming increasingly clear that budgetary compressions are likely in store for post-secondary education. As we have written in the past (see *On the Brink* by Alex Usher and Ryan Dunn), the era of "peak higher education," in which government support to post-secondary institutions and student financial aid programs could be counted on to increase every year, is coming to an end. As significant levels of public debt and the cost burdens associated with an aging population make themselves felt, Canada's universities must brace for significant budgetary cuts in both the short and medium terms.

To take the example of the province of Ontario: currently, the Government envisages reducing the $19 billion annual debt to zero over the coming six fiscal years without major cuts. But this projection is based on a couple of important assumptions. First, and most important, it assumes continuous nominal GDP growth of 5% per annum, in a province that has ranked dead last in productivity growth for much of the past decade. Second, it assumes that the government is able to achieve unprecedented reductions in the rate of growth for health spending, which has recently been growing at almost 6% a year and now consumes 40% of the provincial budget. If the province, for instance, only manages to rein that growth in to 4% (which by many measures would still count as an impressive achievement in its own right), the rest of the provincial budget would need to shrink by slightly more than 1% per year for the next six years in order for the government to meet its overall goals.

But, frankly, that's the optimistic scenario for higher education. If health care costs can't be contained, or if economic growth stutters, either because of a spike in the price of oil or because of a double-dip recession in the United States, or if a new government with a more aggressive debt reduction agenda comes to power (say, one that wanted to eliminate the deficit in four years instead of six), then the scenario becomes significantly worse, with non-health expenditures having to be reduced by 5% or more per year over an extended period. Not all provinces have finances that are the same as Ontario's of course. Quebec and the Maritimes are for the most part worse off (not least because they have significantly worse demographic problems on the horizon), while the other five provinces are to varying degrees better off. But the general point remains: across the country for the next few years, budget cuts are the new normal.

There are a number of institutions across the country where students are already contributing, through their tuition fees, more than half of the institution's running costs. The number of institutions where this is true will no doubt increase over the next few years. Yet surprisingly little is known about what universities' paymasters actually think about how universities spend their money. In an era of rising budgets, this was perhaps not so pressing an issue. In the coming budgetary environment, where students are likely to be asked to contribute more while others are paying less, it is likely to gain in importance.

Recently, Higher Education Strategy Associates undertook a survey of Canadian students regarding their preferences for university finance decisions in the context of budgetary cuts. Participants were presented with two sets of questions. The main battery of questions asked students to put themselves in the shoes of the presidents of their institutions that have to make choices to reduce a deficit cause by cuts in government funding, and asked them which budgetary options they would pursue. This was preceded by a short introduction explaining the context behind the questions, which stated "[i]n the next couple of years, it is argued that Canadian public universities will receive less money from their respective provincial governments. We would like to ask you a few questions on how you think your institution should deal with this issue. For the next few questions, please picture yourself as a president of a Canadian public university who is faced with a deficit for the upcoming year." A second set of questions tapped into participants' knowledge of tenured professors' salaries and amount of subsidies institutions receive from government.

Methodology

The data in this report were collected during an online survey conducted by Higher Education Strategy Associates (HESA) between 18 and 28 November, 2010. HESA runs an ongoing on-line panel with a membership of over 8,000 undergraduate students who were enrolled in an undergraduate program in a Canadian degree-granting institution at some point in the 2009-2010 academic year and returned for study in 2010-2011. Each month, HESA sends a survey on a variety of issues to students on the panel, with a response rate which varies from month-to-month but which is usually in the range of 25-40%. The sample for this study is 2,301 cases.

Obviously, the resulting sample for any of these monthly surveys is not a purely random one, as members of the panel must have responded to at least one previous survey administered by Higher Education Strategy Associates (either directly or as part of its Canadian Education Project). Since they are not based on random probability samples, the concept of "margin of sampling error" is not applicable to results shown here.

As with most student surveys, females are slightly over-sampled as they appear to be simply likelier to respond to surveys than males. Our panel is also slightly overweight in Ontario and underweight in Quebec. It is also biased towards upper-year students. Exact numbers in the sample change from month to month; up-to-date details of the survey demographics are available on request by contacting the authors.

In this report, however (as in all HESA reports based on data from our student panel), data have been re-weighted based on publicly available data on gender and province of enrolment. Based on comparisons between our weighted sample and those of other major student surveys such as Statistics Canada's Youth in Transition Survey, or one of the Canadian Undergraduate Survey Consortium's three rotating surveys, we are confident that results from our panel are reasonably representative of the Canadian student population.

How Much Do Students Know About University Budgets?

To begin the survey, we asked students how much they thought universities received in government subsidies per student (excluding high cost programs like medicine). Of course, per-student funding from government varies significantly by province (see Table 1, below) and by program of study. Those provinces which use funding explicit weighted student funding formulae make per-student funding in more expensive programs (e.g., medicine) equal to as much as five times as much as the least expensive programs (e.g., humanities). Though the average per student funding across the country is $13,481, arts students in Ontario attract as little as $6,000 each in subsidies, approximately $4,000 below the Ontario average for all students.[1]

Table 1: Provincial Transfers to Colleges and Universities per FTE Student Enrolments

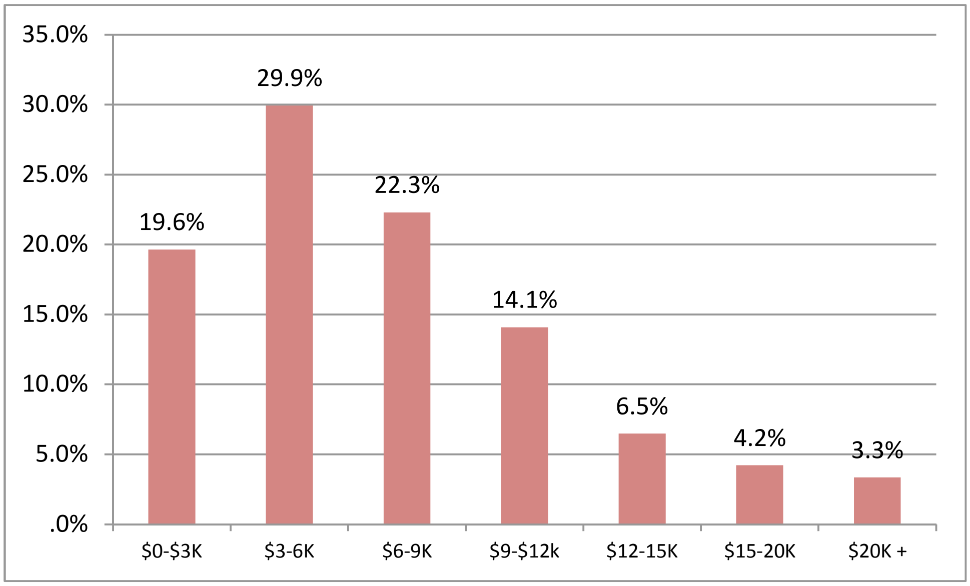
Province	Expenditure per student	Province	Expenditure per Student
Alberta	$25,459	British Columbia	$13,863
Manitoba	$14,208	New Brunswick	$13,572
Newfoundland	$15,771	Nova Scotia	$15,916
Ontario	$10,222	Prince Edward Island	$13,882
Quebec	$12,756	Saskatchewan	$22,520
CANADA	$13,481		

Source: CAUT Almanac 2010-11, Table 1.4

However, the average student substantially underestimates the amount of public subsidies provided for the purpose of university instruction. Almost 50% of students believed that the average student subsidy was lower or equal to $6,000, which is in fact about the lowest per student subsidy in the country. Only 6.5% were in the right range overall, with 7.5% overestimating the subsidy and the rest underestimating it.

[11] In fact, formula funding per arts student in Ontario has hovered around $4.500 per student for several years; however, since per-student formula funding usually only makes up about 75% of transfers from the province to institutions, we have rounded it up here to $6,000.

Figure 1: Students' Estimates of per-student subsidies

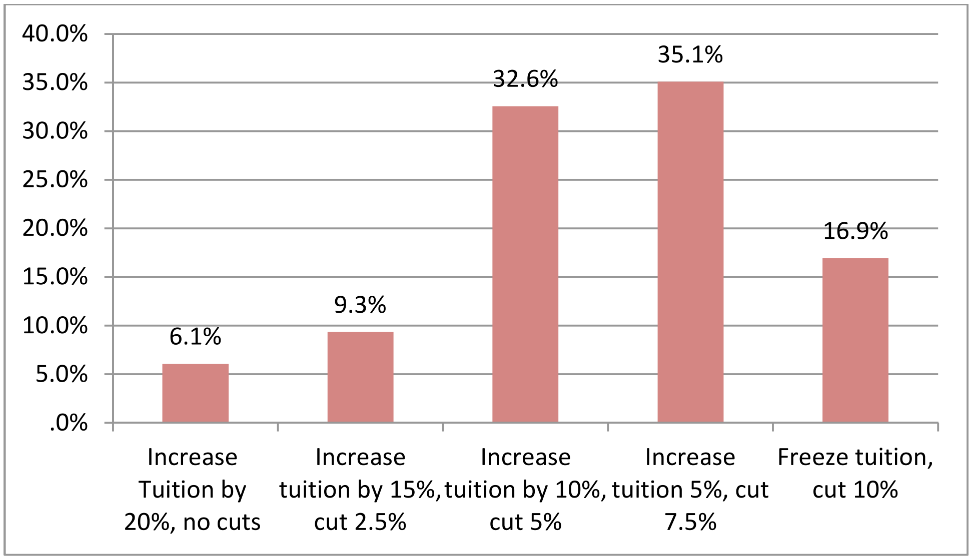


ARE STUDENTS PREPARED TO SEE TUITION RISE?

For the next question, students were asked to put themselves in the shoes of a university president facing a budget crisis. The options presented to students for dealing with the crisis were a mixed set of options, ranging from a 20% rise in tuition with no expenditure cuts, to a 10% budget cut with no rise in tuition. All options were balanced in terms of their budgetary impact and assumed that tuition made up about one third of operating income.

While we might expect students to roundly reject any increase in their tuition fees, when faced with a series of choices between raising tuition or cutting services, only one in six survey respondents thought freezing tuition at all costs was the right policy response. The majority of students thought that students should bear some of the cost of absorbing cuts, the vast majority sought some balance between higher fees and cuts to services. Only 6% of students thought fees should rise sufficiently to stave off *any* cuts to institutional budgets. Thirty-five percent of students would accept a 5% increase to their tuition along with budget cuts of 7.5%. About one-third of respondents would be willing to absorb a 10% increase in tuition along with cuts of 5%. Men were very slightly more willing to think large rises in tuition fees were the right policy response than women, However there were no major differences according to region or program of study.

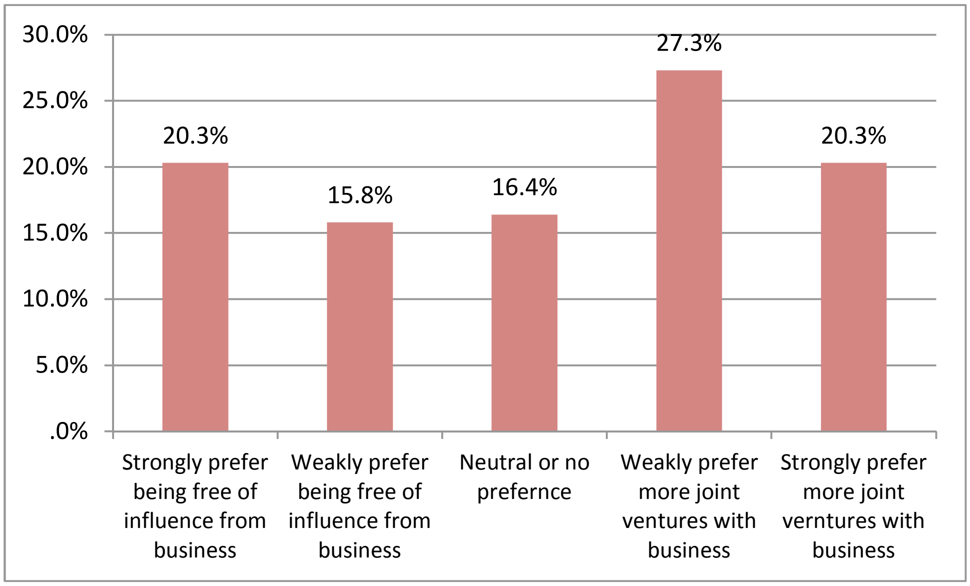
Figure 2: Students' Preferences for Reducing a Hypothetical Budget Deficit



WOULD STUDENTS WELCOME MORE REVENUE-ENHANCING TIES BETWEEN INSTITUTIONS AND BUSINESSES?

Another way to raise revenue, of course, is to increase ties with the private sector. However, this traditionally has been a touchstone issue for student unions, who typically oppose such ties. Students themselves however, take a fairly nuanced view of the issue. Students in fact are somewhat more likely to see these kinds of ties with business sector more acceptable than not (47% to 36%). Business students, not surprisingly, are the keenest on such ties, followed by engineers; while students in agriculture and environmental sciences are least keen on the idea. That said, students are not especially polarized on the issue by field of study; even among social science and humanities students, the opposition to such ties outweighs support by less than five percentage points. Support for such is slightly stronger among men than women, though in both cases, a plurality is in favour of the idea.

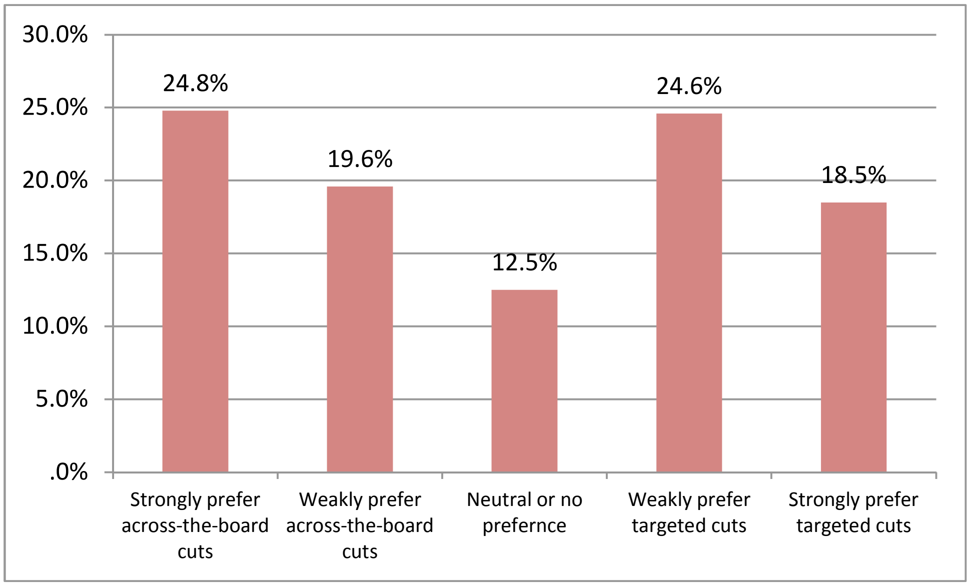
Figure 3: Students' Views on Raising Revenue Through Joint Ventures with Business Sector



HOW DO STUDENTS WANT TO PROCEED WITH CUTS?

The survey asked students how they would implement cuts across academic units, giving them a range of choices on a Likert scale between "introducing budget cuts uniformly across all academic units and programs" and "introducing budget cuts for select academic units and programs". The results suggest that students are in considerable disagreement about the approach to take. Leaving aside the 12.5% of students who had no preference, about half of students would prefer cuts to be made in targeted areas, while half would prefer across-the-board cuts. This latter group has somewhat stronger preferences – among those who would prefer across-the-board cuts, 56% report "strongly preferring" this approach, compared to 43% of those who would pursue targeted cuts.

Figure 4: Students' Views on Across-the-Board vs. Targeted Cuts



WHAT PARTS OF UNIVERSITY SPENDING DO STUDENTS MOST WANT TO PROTECT?

In order to discover which parts of the university budget students most wanted to protect, we gave students a series of 15 pairs of spending priorities, setting "student aid," "student services," "teaching," "research," "libraries and information technology" and "physical infrastructure" against one another in a series of head-to-heads.[2] Thus, students would be asked in turn which spending area they would prefer to protect: "student aid or student service," "student aid or physical infrastructure," etc.

The table below shows the results of the various head to heads. Students indicated that their highest priority was to preserve student aid budgets. Teaching budgets emerged as students'

[2] The cuts in each of the categories were explained as follows: Teaching (implies larger class sizes, reduced courses availability and selection, greater use of sessional or graduate students to teach courses); Research (implies smaller research funds/budget, less ability to support top research faculty, greater difficulty in recruiting top faculty, possible loss in institutional prestige); Physical Infrastructure (implies halting or slowing construction of any new buildings on campus and of renovations to older buildings; less frequent maintenance and cleaning of buildings, labs, classrooms, or other spaces/physical infrastructure renewal programs, decreased building opening hours); Library/Information Technology (IT) (implies a decrease in periodicals subscriptions, purchases of new books and monographs, limiting purchases or upgrade of new computers/ software programs, and shorter library hours); Student Services (implies a decrease in the availability of health services, disability services, recreational &athletic services, advising& counselling services and other students services); Student Financial Aid (implies a decrease in the number and size of scholarships and bursaries for merit and financial need)

second priority, followed by student services, research and library/IT. Students were not interested in preserving infrastructure budgets at the expense of anything else, presumably because infrastructure spending tends to have an impact only in the long term, after current students have graduated. In fact, it is possible to read the results of these trade-offs as the mere articulation of short-term preferences over long-term ones. For example, even if students were to directly benefit from, say, the preservation of research investment (which may not necessarily be the case as research investment usually only trickle down to students via the occasional research assistantship or the prestige of being at a research-intensive university), it is unlikely they would reap any substantial benefits in the near term. By comparison, cuts to student aid and student services, which survey respondents sought to avoid above all else, would be felt immediately – and deliver direct financial benefits to students.

Table 2: Students' Revealed Preferences on Institutional Spending

	Student Aid	Teaching	Student Services	Research	Library/IT
Teaching	5				
Student Services	10	14			
Research	19	15	9		
Library/IT	32	35	18	13	
Infrastructure	35	67	34	29	23

How to read this chart: The columns represent the "preferred " option in a series of head-to-head declared preferences, and each figure represented the margin of victory in the head-to-head choice of preference. Hence, student aid is preferred to teaching by 5% in a head-to-head contest, to student services by 10%, to research by 19%, to Libraries and IT by 32% and to infrastructure by 35%. Infrastructure, which is never preferred to any other spending option, does not have its own column.

Students, of course, do not have identical views about these priorities. There were, in fact, some fairly significant gender gaps on most of the head-to-head. In general women were substantially keener on spending money on student aid, teaching and student services that were men, who tended to see more value in expenditures on research, libraries/IT and infrastructure. In some cases, the gender gap was as much as 15 percentage points. Field of study occasionally mattered as well. In a straight choice between cutting teaching budgets and cutting research budgets, for instance, students in physical and life sciences and math and computer science all came down on the side of preserving research rather than teaching.

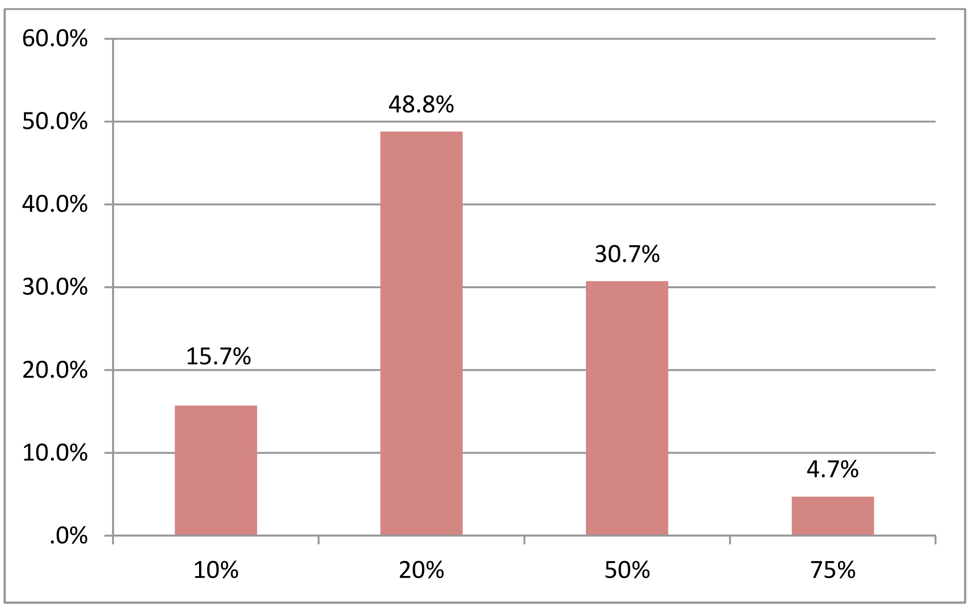
Are Student Preferences Feasible?

Students have essentially indicated that they while they think it might be appropriate for a university to ask students to pay more to close a budget gap, they also want to see the pain shared; students thought that restraint in spending was a necessary concomitant to tuition rises in this scenario. Specifically, they indicated that in order for tuition rises of 5-10% to be preferred as a response to government cutbacks, cuts in expenditure of between 5-7.5% would also be necessary. However, they also thought that certain elements of institutional spending needed to be protected – in particular, student assistance and "teaching".

How an institution might achieve those kinds of expenditure reductions while at the same time protecting instructional salaries is difficult to imagine. According to 2008 data from Statistics Canada and the Canadian Association of University Business Officers (CAUBO), salaries of tenured and tenure-track professors was equivalent to 30% of operating expenditures, a figure which rises to 40% if salaries of non-tenure track staff are taken into account, and to 48% if benefits are taken into account as well. To protect these sums while simultaneously achieving expenditure reductions of 5-7.5% implies draconian cuts elsewhere in the budget.

Is this simply cognitive dissonance on students' part? In part, perhaps, but an ignorance of faculty compensation also plays its part. As figure 5 shows, 64.5% of students think that tenured professors' salaries are 20% or less of the total budget. When asked directly about average professors' salaries, the median estimate was $80,000, somewhat lower than the actual figure of $103,000.[3] Given this belief, it is easier to see why students may think it is possible to cut while still protecting teaching budgets.

Figure 5: Percentage of Institutional Budget Devoted to Professors' Salaries, According to Students



[3] Though neither Statistics Canada not the Canadian Association of University Teachers (which published the CAUT Almanac) publishes a figure for "average salary of all professors" it is possible to arrive at this figure by multiplying out the average salaries at each academic rank by the proportion of professors of that rank and then summing the totals, which is what we do here.

CONCLUSION

There are a few possible conclusions that stem from this data. The first is that students vastly overestimate the share of institutional budgets they are already paying, and vastly overestimate the share of their expenditures that are going to non-teaching purposes. Given what they believe to be the truth of these matters, their reluctance to pay much more is quite understandable. Whether having a better understanding of these things would change their views significantly is open to question, but it couldn't hurt.

That said, only a relatively small minority of students is prepared to rule out any tuition fee increase at all as a possible policy choice. Faced with the prospect of government-imposed cuts to university budgets, most students appear to be willing to bear a share of the resulting financial burden. In fact, students appear interested in preserving the quality of their education, even if it means paying more for it.

However, that interest appears to be somewhat conditional on two things; first, that institutions themselves do not spare themselves some pain, and second, that in the budget-cutting process, certain types of expenditures (i.e., student aid, teaching, and student services) are protected to the extent possible.

This sets up a potential clash with institutions on two fronts. First, although students indicate a wish to meet institutions half way, institutions might have enormous difficulty coming up with their half. Internal politics and collective agreements make budget cutting on this scale very difficult politically, which is precisely why universities' first instinct when faced with budget difficulties is to find more revenue. Second, institutional and student priorities for spending do not match up well. Reductions in student aid budgets have been very common in the last couple of years, particularly at those institutions where student aid has been primarily funded through endowments. There is also a basic difference in orientation; university administrations have a longer time-horizon than students, and hence are more likely to orient themselves toward medium-/long-term projects like expanding their research activity, while students would much rather preserve functions that affect them directly (student aid and services, teaching).

In the good times of the past, these differences of opinion have not mattered much; rising institutional income meant that institutions were able to satisfy both undergraduates' short-term goals as well as the longer-term needs of the institutions. No longer. The imminent arrival of a period of austerity is about to make the competition for resources on campus much fiercer. By sketching out students' revealed preferences about policy choices and institutional spending priorities, this paper has outlined both what the battle-lines are likely to be, and suggested where the possible compromises lie. Our hope is that it can be a basis for honest and positive discussions about institutional finances across the country.

HIGHER EDUCATION STRATEGY ASSOCIATES

207-20 Maud Street
Toronto, ON M5V 2M5
Phone: (416) 848-0215
Fax: (416) 849-0500