THE MARKET MODEL IN HIGHER EDUCATION: ONTARIO IN COMPARATIVE PERSPECTIVE

by

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A thesis submitted in conformity with the requirements for the degree of Doctor of Philosophy
Graduate Department of Education
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THESIS ABSTRACT

The market model in higher education: Ontario in comparative perspective

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This thesis documents the introduction of market mechanisms in the allocation of public and private funds in the Ontario university system. This thesis brings greater conceptual clarity to the central notions of "public," "private" and "market" as they apply to higher education, as well as to the concepts of "marketization" and privatization." It is here argued that marketization and privatization are profoundly different processes of government-initiated change, and that Ontario universities, instead of undergoing a process of privatization, are in fact entering into more market-like arrangements with the government and with one another. Marketization is, rather, a compromise between privatization, central-style planning and academic autonomy, where the market is a metaphor for organizing government-initiated change and control. Using the definition of marketization developed in the first part of the thesis, major finance policy developments are examined in England and Australia, with the intent of demonstrating their market-like character. Turning back to Ontario, the thesis then traces the development of higher education finance policy in Ontario and provides an overview of policy change in Ontario to 1995. Finally, the implementation of marketization in Ontario is demonstrated through an analysis of the major finance policy changes introduced in Ontario since 1995. The thesis ultimately clarifies the use of the notion of marketization as it relates to state control.
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The market model in higher education: Ontario in comparative perspective

Introduction

The present state of higher education is far from the days when hopeful philosophers could follow their mentors around the agora’ attending to the scraps of wisdom that fell, often for a fee. Indeed, Socrates is said to have denounced his Sophist competition for the minds of the young elite of ancient Athens for charging money in exchange for philosophical mentoring services, calling it a “sordid and mercenary practice...,” for, he argued, “wisdom was too infinitely precious to be appraised at any money value” (Capes in Patterson 1997:17). So, too, are universities at some distance from the whims of their medieval masters, the kings and popes, when universities were the “prerogative of imperial or ecclesiastical authority” (Minogue 1973: 12-13).

Today, systems of university finance and management are subject to reams of law, regulatory provisions and acts of legislation that remove these institutions from the realities of forms and expressions of higher learning of years past. As human societies, their institutions and their economies have become more complex, so too have the forms and ‘houses’ of higher learning. In this way, historical forms of higher education mirror the complexity of the societies and economies in which they are located.

The nature of policy change with respect to higher education in many parts of the world reflects the prevailing, Western attachment to markets and the idea of the market in this stage of global capitalism. I will examine some key finance policy changes implemented in Ontario, Canada in the period of 1995 to 2000. It will be argued that these changes signal the introduction of marketization — the application and use of market principles in the design and delivery of funding to the province’s universities. Ontario is preceded in the thesis by discussions of
university finance policy changes in England and Australia, which provides some basis for comparative study, and allows us to determine whether the case of Ontario can enrich our understanding of how public sector markets are conceived and shaped. It is not the focus of this thesis to determine whether or not markets serve the goals of equity or access, nor is it to determine whether the educational sector is an appropriate place for the values of the market. Rather, it is to understand what is meant by marketization in the context of public higher education, and to ultimately determine whether recent policy changes in Ontario, Canada, can be viewed through this lens.

With respect to their application to the finance of higher education, the use of market mechanisms in various iterations and varying degrees is an international phenomenon, and as such has been documented in Europe, the United Kingdom, Australia and North America (Leslie and Johnson 1972; Leslie and Slaughter, 1997a and 1997b; Dill 1997; Mora 1997; Meek and Wood 1997; Marginson 1993 and 1997; Williams 1997; Kenway, Bigum and Fitzclarence 1993). In many of these countries of the developed world, governments have historically played a major role in delivering or subsidizing university education and research, or indeed, have been the exclusive providers of funds, either in the form of the block grant or through other finance vehicles. Now subject to increasing pressures of a global nature, these governments are exercising their political prerogative – often veiled as necessary – and introducing major reductions and a re-organization in the ways in which public sector services are financed and delivered. This includes, of course, higher education.

In the marketplace of ideas, where the superior ones float to the top and the rest sink down to reside on the bottom of the competitive pond, the idea of the market is enjoying its time in the sun. The United States, winner of the global war for ideological and economic supremacy, is
currently experiencing what Kuttner has called "a cyclical romance with the Utopian view of laissez faire" (1997: 4). Though it will be shown later that it was in the early 1970s when market forces as we understand them today were first unleashed in modern American higher education, it is possible to see that, particularly in the concluding decades of the 20th century, utilizing the forces of the market is regarded by governments as a panacea for the many ills that have befallen higher education around the world: The market metaphor has proven to be a potent one for the reform of university finance.

The earliest modern writings on education and markets focus almost exclusively on student aid policies (Friedman and Kuznets 1945; Nerlove 1975; Leslie and Johnson 1972). Friedman and Kuznets grappled with the danger of under-investment in professional education given its high cost to ‘consumers,’ and conceived of a market form of student aid premised on post-graduation repayment. The crux of their concern was that investment in human capital could not be treated as other investments: human capital was not a legally recognized form of collateral; and investment in it by a third party carried some risk (Nerlove 1975: 158). But,

... if individuals sold "stock" in themselves, i.e. obligated themselves to pay a fixed proportion of future earnings, investors could "diversify" their holdings and balance capital appreciation against capital losses. The purchase of such stock would be profitable so long as the expected rate of return on investments in training exceeded the market rate of interest (Friedman and Kuznets, 1945: 90).

This was a clear call to harness the forces of the market in the design of student aid for professional education. In its later iterations, an income-contingent, loan-repayment program, still predicated on the notion that graduates repay moneys lent for educational accreditation through a long-term surtax, would be based on the labour market: The life of the loan and the level of payments would be tied to the graduates’ future income level and their performance on
the labour market. It is in this way that one market with which higher educational institutions is engaged is further insinuated, and the relationship with it strengthened.

In 1972, Larry Leslie and Gary Johnson wrote of then-recent moves to use the market model in financing higher education, condemning it as an American federal policy initiative. It, too, focused exclusively on student aid as a key policy area used to 'marketize' the financing of the sector. The writers identified a cluster of policy changes made in the early 1970s by the Nixon administration, that 1) channeled increasing amounts of funding for universities and colleges directly to students and 2) required states with the federal government to contribute to increases in student aid (Leslie and Johnson, 1972: 2-3). The language of one federal government document makes the intentions clear in its use of market theory – the notion of consumer choice:

The fundamental premise of this paper is that a freer play of market forces will best achieve Federal objectives in post-secondary education... Accordingly, this paper describes what we should do to give individuals the general power of choice in the education market place, and proposes levels and types of student support which will make most institutional aid programs unnecessary (in Leslie and Johnson 1972: 2).

The conjecture regarding the imminent demise of institutional financial aid proved to be incorrect, and in fact shows a fundamental misconception of the logic of higher education markets (or market variants such as quasi-markets). given how the continual release and harnessing of market forces in US higher education has in fact achieved the opposite effect. Institutions are spending an ever-increasing amount of tuition revenue and operating funds on student support (McPherson and Schapiro 1998). And on the national front, the relative emphasis in the United States on portable subsidies in the form of student aid has stimulated market-like behaviours in the higher education sector.
In addition to changes in student aid policies, substantial reductions in block grant allocations are perhaps the most crucial first step in unleashing the forces of the market, due to the fact, as Leslie and Johnson argued in 1972, that the redirection of funds to student support occurred at the block grant’s expense. As Leslie with Sheila Slaughter argued more than twenty years later:

Whether responding to market pressures, movement of restricted capital or political economic pressures from the business class, nation states developed policies in the late 1980s which targeted public moneys for functions such as technological innovation, intellectual property management, and producer services development. These policy shifts served as a rationing device, shifting higher education moneys from block grants toward specific goals that were consistent with the new orthodoxy of making industry more competitive in the global market. Given that the federal governments, and, in the United States, several states, paid the largest share of all higher education costs, governing targeted of functions for research and program investment means there were fewer unrestricted public funds available, thereby creating conditions of acute resource dependence in higher education systems (Leslie and Slaughter 1997b: 65).

Two things about this passage are worthy of note. First, that Leslie and Slaughter rely heavily on resource dependency theory – which will be discussed later on this thesis – to explain institutional and system response to a reduction in funds from an institution’s single most important provider of funds. And second, that ‘academic capitalism’ is a near inevitable result of a policy decision to direct increasing amounts of funds through targeted initiatives, leaving less available in the form of block transfers. In other words, Leslie and Slaughter treat educational spending as fixed in the face of changes in national policy aimed at increasing innovation and competitiveness. It is, largely, viewed as a fairly “passive” policy consequence to the need for fiscal restraint. This approach to the decline in block grants does not admit of government initiatives that are implemented wholly or partly on the basis of ideology or political choice. This
is not to argue that the public capacity to support education budgets are by any means finite, but rather that this is not so much an act of default, but of concerted policy choice (for example, see Cohn and Geske 1990: 290, for a break-down of American state tax capacities in comparison with support for education). As Kenway et al. argue, "... the state produces the frameworks within which privatization and commercialism will happen, it promotes certain values to guide these processes and undertakes the ideological work necessary to ensure they are publicly accepted" (Kenway, Bigum and Fitzclarence 1993: 105).

Stressing the partnership between government policy and the market ideology, Australia scholar Simon Marginson treats the subject in a decidedly more political tone. He argues that at a time when neo-liberal thinking dominates the theory and practice of economics and public policy, particularly in the Anglo-American world, "[t]he next best thing to the creation of markets is the simulation of markets within the public [sphere]; internal exchange and pricing between different public sector institutions; competitive bidding for funds; planning on the basis of contracts; 'productivity incentives'; corporate executive structures..." (Marginson 1993: 57). Further, Dill (1997a and 1997b) examines the ways in which government simulate, form and encourage education markets, a further example of a perspective that allows a recognition of the partnership between state and market in organizing higher education reform and state control.

These public sector changes are indeed part of a larger agenda, and must surely be considered part of the changing global political landscape. The increasing 'power' of the individual cum customer is captured in Thomas Friedman's new book, The Lexus and the Olive Tree, in which the New York Times editorialist writes of his new-found identity as a participant in Thai "democracy." He spoke to the now Thai Prime Minister in a recent interview:
I helped oust your predecessor — and I didn’t even know his name. You see, I was watching the Thai baht sink (and watching your predecessor completely mismanage your economy). So I called my broker and told him to get me out of East Asian emerging markets. I could have sold you out myself via the Internet, but I decided to listen to my broker’s advice instead. It’s one dollar, one vote, Mr. Prime Minister. How does it feel to have Tom Friedman as a constituent? (The Lexus and the Olive Tree, 1998).

This passage captures nicely two complementary aspects of late 20th century global capitalism: that the state, more than ever before, has assumed the role as facilitator of the needs of capital on behalf of the perfectly informed, individual consumer; and the market the role of vehicle for "democratic participation" as well as "judge" on the quality of political leadership. It is doubtful that Friedman would argue that Thai voters have the same influence on American political affairs, or that the Thai baht has as loud a voice in the United States as does the American dollar in Thailand. Rather, the point is that capital has significantly increased its potential for making its discontent known with the behaviour and actions of particular nation states, and theoretically, at least, so has the romantic figure of the individual, rational economic actor, exercising choice and preference as consumer-citizen. Today, this is the system of “one dollar-one vote” (Kuttner 1997: 4).

Understanding these shifts in the roles of the public sector and the market requires a considerable amount of work in determining the location and nature of the line that divides the conceptual and practical notions of “public” and “private.” Such definitional exercises are the rightful terrain of this thesis, which strives to sort out, clarify and name a number of policy initiatives in the public sector under the rubric of “marketization.” This thesis that is in part representative of conversations taking place among post-secondary education stakeholders is based on the position put forward here that what is transpiring in Ontario is not a process of
“privatization” per se – implying a distancing of government from its broader public sector – but rather the importation of market principles by government in order to induce certain behaviours on the part of public universities. In other words, marketized university systems are about governments, through a system of financial rewards and penalties, attempting to induce outcomes they perceive will contribute to economic growth, greater productivity and greater accountability in the ways in which the public sector expends its resources. It is not ‘privatization’ – the selling of assets, or cutbacks that require adjusting to, or year-over-year increases in tuition, or ceding government control, nor is it about selling the university off to the highest corporate or individual bidder. It is, rather, a cluster of policy changes that serve to recast the relationship among universities, and between the state and the university.

Given these assertions, however, the conceptual ambiguities inherent in this discussion remain immediately apparent: is the presence and use of market principles impossible in the context of a publicly financed, government-regulated system of higher education? Is not the market a place of spontaneous and voluntary exchange between a seller and a buyer, where the presence of government is near invisible? Is the possibility of a marketized, public regime an oxymoron in terms? What figures, in this context, are cast in the roles of ‘commodity’ and ‘price’?

First, all economists would acknowledge that markets exist and operate by virtue of government facilitation; there are many instances in economic life when decisions are made and laws are passed that implicitly recognize market failure, in healthcare, environmental protection, and minimum wage law, to cite but a few examples. The thesis will attempt in some instances to qualify these competing concepts, and in others to reconcile them. What will ultimately be shown, however, is that the application of market principles to higher education finance policy is
a strategy to stimulate and induce the dynamics of a market in the public sector to achieve various public policy aims. In other words, the conceptual and practical division between the state — as representative of people as citizens — and the market — where the values of citizenship are not especially privileged — is breaking down.

Thus, we are faced with the need to clarify and examine what is meant by “public” and what is meant by “private” in the higher education sector (and perhaps elsewhere!), and the fuzzy line that separates them, particularly in a *global* consideration of universities and their status. However, locating the line that divides private and public institutions is somewhat more difficult that it sounds. Numerous scholars have fashioned a variety of taxonomies that serve to determine the relative public or private status of an institution, but the exercise at developing an abstract, universally applicable definition is nearly impossible when it becomes an international one (see Levy 1986). Moreover, none of these tests include such nebulous criteria such as the “feel” of the place. At one major Ontario university, it is almost impossible not to stumble on portions of the institution that have been renamed after one donor or the other, producing, in some cases, profound confusion. The information technology department of the central library system at a major Ontario university now bears the name of one of Canada’s major banks. Employees of the renamed department were informed they must answer the phone using the extended name of the Bank; reportedly, there are a fair number of callers who hang up, having wanted to renew books, not transfer money from one account to another or buy mutual funds. With so many examples of departments and buildings — and even academic programs — which now bear the name of individuals and corporations, the ‘feel’ of the place can not help but change.

*Despite the greater reliance Ontario universities now have on private sources of funds (tuition fees, income from investments, contract research, and revenue generated from*
fundraising), it is argued here that policy changes that have been implemented in the province of Ontario in recent years are more appropriately described as marketization rather than privatization, keeping in mind the collapse, in some ways, of the conceptual and practical barrier between the market and the state (if indeed, it ever existed). This, perhaps, requires in some ways a leap of faith. Following Peter Rae’s work (1997), which characterizes the nature of similar changes in Alberta under the Ralph Klein, Progressive Conservative government, he concludes that the process of privatization has been introduced via the introduction of market mechanisms, that will at some point in the future change the nature of the beast: that the “privatization in the balance of finances” will lead to *de facto* privatization of public institutions, regardless of all the other elements of a taxonomy or semantics that deem an institution public. However, reductions in government operating support occur whether or not a system exhibits the characteristics of marketization. The nature of an institution or a system is not simply a function of level of government support, for it must be noted that before it occurred to commentators to apply the concepts of “privatization” and “marketization” to higher education policy change, government support for universities has risen and fallen, representing places on the “income” spectrum anywhere from 30 per cent to 80 per cent in terms of its share of university revenue. Of course, it would be foolhardy to argue that once the day came when a public institution received all of its income from private sources that we would not have occasion to revisit the manner in which it was categorized.

Moreover, despite the fall in popularity of the block grant and the rise of earmarked funds and ‘strategic’ public investment, marketized regimes are, in theory, agnostic on the level of public investment. In other words, marketization speaks to how public investment is made and
public moneys allocated, not how much; how private moneys are leveraged by public moneys, and vice versa.

In addition to sorting out definitions of marketization and privatization, the other question that must be cursorily answered is, Why marketization? What do governments achieve through these types of reform? The reasons for the transition to utilizing market mechanisms the world over are strikingly similar. According to the OECD, global trends toward utilizing the principles of the market draw on the following rationales: 1) Markets are an alternative source and mode of delivery of funds; 2) Private users should share the costs; 3) Market reform, even within the public sector, force traditional universities to respond, change and modernize, especially in relation to industry; 4) Markets are an effective method of devolving responsibility from governments to local institutions; and 5) Introducing different sources of funding enables different roles and outputs (OECD 1990: 79), “a sort of diversity of analogy” argument (Marginson 1993: 195). Moreover,

- Marketization as a financing mechanism eases the challenges of growth posed by the transition from elite to mass to universal higher education without the public or governments incurring substantial costs;

- Continued growth of higher education systems, and demand, in the face of governments’ continuing concerns with debts and deficits;

- A growing scepticism about the degree of efficiency in public sector service delivery;

- And the growing belief – and reality – that students should pay a larger portion of universities’ costs associated with teaching and other services, and that ‘freer’ price-setting by institutions allows the market to function;
• A relatively recent, more conservative attitude toward social spending where Ontario is concerned, particularly in the area of higher education costs (Livingstone and Hart 1998);

• And though not a new concern, a widespread disappointment in the university’s ability to act as an effective mitigant of class reproduction, and thus undeserving of the level of public support it has previously enjoyed (Nawotny 1995).

In Spain, a move toward quasi-market mechanisms served to sever the hitherto dependant relationship universities once had upon the national government, allowing universities more autonomy in setting curricula, hiring faculty and responding to the consumer needs of students (Mora 1997: 187). These reforms were in part a response to the Franco regime’s use of universities as political tools, which placed these institutions in a position of complete dependence upon the state (ibid. 188). After the restoration of democracy in 1978, reform of the relations between the state and universities was regarded as a priority on the part of both academics and government. In 1983, the Ley de reforma universitaria [University Reform Act] granted Spanish universities independent status, making them accountable to autonomous regional authorities in place of the central government (somewhat of a reversal of the trend in OECD countries). Although government funding has increased substantially since the late 1970s, the principles of recent Spanish policy governing the financing of higher education...

... are based on: a) the need for increasing support from private sources; b) recognition of the benefit that accrues to private individuals and their employers; and c) the expectation that competition for funds will increase efficiency and responsiveness to economic and social needs (Taylor in Mora 1997: 191).

However, as Mora notes, there is much about the Spanish system post-reform that mitigates fully fledged – or even embryonic – market dynamics or market behaviours, including the strong role
played by both central and regional governments in financing, managing and regulating the sector. In Spain and other European countries, there is a long-standing tradition of government control over universities, as the continent is home to some of the oldest such institutions in the world. Spain, and the other countries of eastern and western Europe, are on those bases excluded from this study.

According to Marginson, Australia is embracing the market model more fully and more rapidly than any other OECD country (1993: 196). Australian education policy documents at all levels are littered with terms such as "educational property, educational enterprise, entrepreneurial approaches to education, educational services, products, packages, sponsors, commodities and consumers, value-added education, user pays, choice and so on" (Kenway et al, 1993: 108). During the decades of the 1970s and 1980s, the Australian government looked to fashion a new approach to industrial strategy, one in which universities would play a new, invigorated role through fairly large-scale expansion (Meek and Wood 1997: 255). This led to a number of initiatives that saw the introduction of a new form of tuition called the Higher Education Contribution Scheme (HECS), a pay-later-through-the-tax-system plan; the introduction of competitive mechanisms for attracting income from research and students; the introduction of some degree of performance funding; deregulation; and policy that would serve to diversify universities' funding sources (ibid.). Described by Marginson as "commercialism" – a process by which market mechanisms are introduced into the system of procuring income – includes the introduction of fees, marketing to oversees students, the commercialization of research and the possible role of vouchers (1993: 172). An additional policy instrument utilized to achieve rationalization and "bigger educational bang for the buck" in Australia was the amalgamation of 19 universities and 44 colleges of advanced education, which involved the
collapse of the distinction between the nation's universities and colleges, mainly through merger, in order, in theory, to achieve greater economy of scale (Meek and Wood 1997: 255).

Further, salient changes implemented with the election of the Liberal government in 1996 include (Meek and Wood 1997: 256):

- A reduction of operating grants by 5 per cent over three years;
- A lowering of the HECS repayment threshold; an increase in level of HECS payments; and the introduction of differential HECS according to course of study;
- An insistence upon return of operating funds if enrolment targets are not met.

Indeed, this new cluster of policies had their intended effect. With respect to the diversification of funding sources – including the collection of fees through the taxation system – Australian universities managed to collect half of their revenue from non-government sources, a mere decade after the introduction of these sweeping policy changes. By 1999, half of the $8.5 billion of universities' operating revenue came from governments, while 17 per cent was collected through HECS (Meek 1997).

Marketization and the market paradigm has also been used to describe changes to the English system of university finance, particularly changes brought in during the late 1970s and 1980s (Leslie and Slaughter 1997b; Williams 1997). Although the budgets of the universities of England during the decade of the 1970s did not grow substantially, the new Conservative government elected at the end of the decade began almost immediately changing the manner in which the system was financed (Leslie and Slaughter 1997b: 41).

Within three days of Mrs. Thatcher's taking office in 1979, 100 million pounds were cut overnight from the universities' budgets, and, between 1980 and 1984, 17 per cent was removed from the grants made by the government to the UGC (University Grants Committee, which, at that point
provided about 90 per cent of the operating costs of British universities). Four thousand academic posts were lost, mostly through government-funded early retirement. And, from 1985 onwards, the universities lost a further 2 per cent per annum from their budgets (Shatlock in Leslie and Slaughter 1997b: 41).

Moreover, beginning in 1992, teaching and research activities were funded separately, the former based on quality and outcomes measured by agencies external to the institutions. In the case of research funds, allocations were made to departments and were distributed based on competition.

Apart from the ideological and political motivations for marketizing English patterns of university finance, Williams argues that this model served to achieve significant expansion without great expense to the public purse (1997). Between 1989 and 1994 enrolments increased by over 50 per cent and expenditure per cent student fell by 30 per cent (ibid. 275). Changes in higher education finance followed (or led) trends that took shape under the Thatcher government, which introduced changes in the broader public sector of a two-fold nature: 1) privatization, and 2) the formation of quasi markets (1997). In the case of privatization, the government withdrew from playing the role of exclusive provider of such services as telecommunications, gas, water and electricity. Other social services, such as welfare and education, have been reorganized into quasi markets, with the government acting in the role of surrogate customer, and purchasing services on behalf of the ultimate customers, from service suppliers such as hospitals, schools, and universities. In this way it claimed the self interested monopoly power of influential professional groups such as doctors, teachers and professors can be kept in check (Williams 1997: 277).

Williams also argues that these movements have been informed by the rise of information technologies that facilitate the storage, analysis and easy retrieval of information. This allows
governments to assume more perfectly their ability to survey outcomes, a new identity described as the ‘evaluative state’ (Kogan and Hanney 2000).

In Ontario, similar processes are underway. However, where England and Australia employed market-like finance policies to expand the system, the Ontario government’s adoption of market mechanisms was intended primarily as a cost-saving, and ultimately, a cost-shifting device. The Progressive Conservative government, first elected in 1995, introduced in their first mandate considerable changes to the provincial welfare, education and health portfolios, aiming for a reduction of $3 billion in spending, and $3 billion in tax reductions. In the first move designed to evoke dramatic change, as is also seen in other political jurisdictions, the Conservatives cut universities’ operating grants by almost 16 per cent; introduced the largest single tuition increase (up to 20 per cent, depending on the program); created matching programs for student aid and computer science program expansion and other programs, in which universities could access government funds following successful fundraising drives; and partial deregulation of tuition fees, allowing universities to charge differential fees for different programs. Though the federal government has made use of the “matching principle” in research funding programs in the 1980s, this provincial government of Ontario has demonstrated a particularly strong fascination with it.

The most compelling facet to these changes, and one that will be explored in the final section of the thesis, is how, counter-intuitively, the adoption of the market model signals a new relationship with the government, but one not particularly marked by a more hands-off approach, recognizable in all three of the jurisdictions examined herein. This is precisely what makes it a substantively different experience to privatization. This will be evident in the examination of the policy changes introduced by the Progressive Conservatives in their use of ‘marketization’ to
bring the state’s objectives to the fore. Using the definition of marketization and quasi-markets as developed in Chapter II, these Ontario policies will be “tested” for the degree of marketization they exhibit.

A note on the case studies and the structure of the thesis

The three case studies in marketization in the public sector of higher education were chosen based on a number of shared starting points. Although the United States provides the richest case study in terms of the development of a market or markets in higher education, the US ‘system’ itself is a mix of public, non-profit and for-profit institutions, and exhibits far too much diversity for any useful – or accurate – characterization that may be offered for the stated purposes herein. And though the public sector in the United States remains vibrant and continues to enrol the majority of US undergraduate students, the play of market dynamics in that country’s higher education system has a long tradition. Further, variations in the dominance of the market from state to state prevent any generalizations about the national scene.

In contrast, English universities fall under national higher education policy, and all have, until fairly recently, received the bulk of their operating and research funds from the national government. In Australia, the consolidation of federal powers over the exclusively public system of universities was decades in the making, and thus at the time of dramatic university finance policy change in that country, originated at the federal scene and was applicable to all institutions. The question that is begged, however, is why is a comparison between two national (or federal, as in the case of Australia) systems and one Canadian province appropriate?

For its part, the Canadian ‘system’ of higher education is almost equally inaccessible to characterize, for post-secondary education is, under the British North America Act, the terrain of
the provinces. Ontario itself is but one of 13 regional political jurisdictions in a federation. However, it may be argued – and demonstrated – that Ontario is emerging as a city-state (Courchene and Telmer 1998), and by virtue of the nature of our Canadian federation, has the constitutional authority to affect the type and scale of change that has taken place in other federal or national systems of post-secondary education. It is on those shared foundations that comparison is most apt and most fruitful.

Moreover, each country in this century developed the mechanism of the block grant to deliver funds after the World War II period, experimenting and refining buffer bodies’ powers to advise government on the distribution of funds. All three of these jurisdictions – two under rather conservative governments and one under a left-centre party – sought to introduce alternative methods of allocating public funds. And it is the sheer rapidity in the adoption and development of such mechanisms evident in each of these case studies that serves as yet another strong basis of comparison.

Chapter I will develop a definition of the market and a glossary of terms associated with it. Chapter II will examine the literature concerning the application of the market metaphor to higher education, comparing different writers’ treatments of, and approaches to, the subject. I will also explore the limitations inherent in applying and adapting the market model to higher education on the basis of its shortcomings as a pure or actual market. The cumulative effects of various aspects of this discussion will lend themselves to a more nuanced definition of marketization – including what it is and what it is not – as well as to a comparison with the notion of privatization. Given this comparison between marketization and privatization, it is important to examine what is meant by ‘public’ in the Ontario context, which is the subject of Chapter III.
Chapter IV will focus on the founding documents of what are now our Canadian universities, in order to develop some notion of the particularly Canadian arrangements surrounding the establishment of our public universities, including a discussion of the evolution of the notions of public and private in Canada and Ontario, which have informed our sense of what those notions mean in the contemporary context.

Chapters V and VI will examine two international expressions of marketization in higher education, namely Australia and England, in which competition and the development of more extensive mechanisms of accountability were developed. Chapter VII will provide an overview of the history of higher education policy in Ontario, including the evolution of its tuition fee and accessibility policy; its public funding patterns; its interest in promoting science policy; and the relatively stable period, in terms of drastic change, in the 20 years leading up to changes introduced in the mid-1990s. Chapter VIII will examine new policy directions beginning in the middle of the 1990s in Ontario, beginning with the Smith Report and the subsequent adoption of some of its recommendations. I will review in depth some of those policies with the aim of demonstrating that they together constitute a move toward a market and/or a quasi-market model of higher education finance.

What emerges immediately from this study is that where other nations are pursuing these policies in the national interest, public sector policy changes introduced a little more than a decade later in the Canadian province of Ontario herald its new posture as a nation-state. It is perhaps as illustrative of the effects of globalization as it is playing out in the Western hemisphere than it is of what Ontario may add to the understanding of marketization. As Cameron and Stein argue, political control has moved “up, down and away from the state” (2000; S16). In federal nations, they argue, regional governments are increasingly exerting and seizing political control
over policy that has traditionally been the terrain of the central state. “In federal countries, where
the state’s sovereignty is constitutionally divided, this has often meant that sub-national
governments fare better [in terms of exerting control] in the changing landscape than do their
central governments” (ibid.).

The following chapter develops a glossary of terms associated with the market and its
allure as a system of economic organization.
During the close of this century... even redistribution's protective arm was pushed aside in the rush to unshackle the invisible hand.

(Shipman, 1999: 1)

Chapter I

The mechanics of the market

Market relations and market exchange, simply defined, involve two parties which voluntarily contract to exchange a good or service for a socially or legally recognized currency. According to many of its learned and most articulate spokespeople, it is in this simplicity that its merits are most strongly evident. According to Austrian economist Frederic Hayek, markets are expressions of a "spontaneous order," and are an outgrowth of evolutionary processes and pressure: The market is not a product of a human desire to create grand, strongly centralized and articulated systems, nor can the nature of markets be understood outside or beyond the act of exchange between two parties. Thus Hayek warns of the tendency to confuse the "market" with the "economy," the latter constituting a network of economic activity, which may include both market and non-market forms of production and distribution. An economy, rather than a market, may even imply a shared "hierarchy of ends" (1978: 108), whereby government (non-market) and market mechanisms co-exist to bring about certain social, economic or political ends perceived as outside the capability of a free market. Therefore, an economy is, simply, an aggregate of all market and non-market activity.

Indeed, to market economists, the merits of markets and market economies can only be understood on this micro exchange level. Thus, given the centrality of the individual and the exchange which takes place between individuals in the absence of cohesion, market-based economies are considered by their most enthusiastic proponents as necessary conditions to the
creation and preservation of the freedom and liberty of a given society’s individual members, applicable to both the political and social arenas (Shipman 1999:13). According to Hayek, “[it] is often made a reproach to the Great Society and its market order that it lacks an agreed ranking of ends. This, however, is in fact its great merit which makes individual freedom and all its values possible” (1976: 109). Expressing a brand of extreme libertarianism, Hayek states:

Although there is good reason for preferring limited democratic government to a non-democratic one, I must confess to preferring non-democratic government under the law to unlimited (and therefore essentially lawless) democratic government. Government under the law seems to be the higher value (Hayek in Marginson 1993: 61).

Thus for Hayek, a market economy is one composed of unorganized individuals trading on the open market, able to access the information necessary to make rational choices. Competition – the “confrontation between agencies endowed with calculating tools of differing levels of efficiency” (Callon 1997: 32) – is its primary “discovery procedure,” the essential way in which quality and value are assessed and made apparent. Of the various information cues available to the economic actor, price is a critical one, acting as “information in coded form,” important given the varying wealth capacities and buying power of individual consumers (quoted in Haworth 1994: 117; also Friedman 1981).

efficiency – even the improvement in the ‘relative position of those in the lowest income groups’ resulting from the ‘general growth of wealth’ – is facilitated by the fact that prices indicate ‘which of the available technical methods is most economical in the given circumstances.’

However, first a more detailed sketch of what economists mean by the term “market” is necessary.

A market exists where many differentiated, uncoordinated agents engage in voluntary exchange of a reproducible product or productive service at openly advertised prices. Prices adjust through
time to keep the product's demand and supply in balance. At any time, in any one place, the same price is available to all agents trading a homogenous product (Shipman 1999: 13).

'Differentiated' refers to the state of demand whereby an imbalance exists between what people have and what they want, while 'uncoordinated' refers to the absence of any pre-existing agreement or conditions of compliance between the sellers of a particular product (the state of agreement called monopoly) or the buyers of a particular product (the state of agreement called monopsony).

In terms of the notion of market as a dynamic process working toward an ever-increasing state of improvement or perfection, Kirzner writes;

Even without changes in the basic data of the market... the decisions made in one period of time generate systematic alternations in the corresponding decisions for the succeeding period. Taken over time, this series of systematic changes in the interconnected network of market decisions constitutes the market process... The market process, then, is set in motion by the results of the initial ignorance of the participants. The process itself consists of the systematic plan changes generated by the flow of market information released by market participants – that is, by the test of plans in the market (Kirzner 1973: 10).

To allow for a more generalized view of the nature of exchange in market regimes, others have sought to provide an anthropology of the institution of the market, a definition which seeks to extract its essential and universal principles, recognizing its varied cultural forms and expressions:

- A market exhibits 'instruments of judgement,' or what may be termed "calculative agencies";
- The market implies an organization, so that one has to talk of an organized market (and of the possible multiplicity of forms of organization) in order to take into account the variety of calculative agencies and of their distribution;
• The market is a process in which calculative agencies oppose one another, without resorting to physical violence, to reach an acceptable compromise in the form of a contract and/or a price. Hence, the historical dimension which helps us to understand the construction of markets and the competitive arrangements in which they are stabilized, for a time and in a place (quoted from Callon 1997: 3).

This notion of the rise of 'calculative agencies' or calculative capacities speaks to that which differentiates capitalism from pre-modern economic forms, in which the 'generalized' exchange — or the gift — of goods is separated by time in such a way that builds networks of social obligations. In other words, relationships between parties in pre-capitalist exchange did not necessarily end at the conclusion of a trade or transaction, and may even woven in with political or social alliances such as marriage or shared land-use rights. Conversely, the introduction of currency and the de-personalization of exchange are the hallmarks of market exchange and the use of 'objective' calculative agencies.

Marx and Engels, in the *German Ideology*, originally written in 1845 and 1846, identify four modes of production: the tribal, the ancient, feudal and capitalist modes (1976). The tribal mode of production refers to the terrain of anthropologists; hunters and gatherers, where land ownership, to the extent that it existed, is communally held, and in which simple band societies hunted and foraged, never remaining too long in one place: This nomadic state of affairs informed the relative lack of the notion of private property. The ancient mode of production is considered to have led to the rise of state societies and private property, though forms of communal land ownership persisted. The third, feudal form is characterized by the increasing concentration of large tracts of land in which peasants engaged in agricultural production on feudally held parcels, part of which was held back for consumption, part or which is a payment of rent to the feudal land owner. The fourth, most familiar mode is the capitalist mode of production, in which our
more specifically defined modern concept of the market is located. According to Marx, what distinguishes this most sharply from the others is the alienation of the actual producers from the means of production and the rise of wage labour, in which the majority were compelled to sell their labour for a wage. It is at this stage when the “public” was split from the “private,” accompanied by the rise and creation of a labour market. Although using the logic of the more generalized, anthropological notions of the market outlined above, it may be argued that markets of a sort were present in pre-capitalist societies, as in ancient Rome, when the city functioned as a clearinghouse for items produced throughout the incredibly vast empire and beyond, including raw materials and pottery from Germany, glass from Alexandria, and corn, granite, silks and marble from the Far East (Barrow 1949); or in early-contact Tongan Islands in the South Pacific, where complex rules and customs informed many forms of non-gift type exchange (Ward Gailey 1987). However, the market as it has evolved is the defining feature of modern capitalism.

“Commodification” is the process by which an item acquires value (embodied in “price”) through exchange, and for which there exists supply. A thing that may have once been a commodity may lose its status as such, and vice versa. “Commodities are here understood as objects, persons or elements of persons which are placed in a context in which they have exchange value and can be alienated. The alienation of a thing is its disassociation from producers, former users, or prior context” (Callon 1998: 19). Callon argues that it is this very notion of “disentanglement” – the divorce of an object from its context – that captures the nature of markets and marketization (ibid.). For a clear study of the making of a market in fruit, it is useful to describe the emergence of the table strawberry market, in which informal transactions between personal friends were transformed into business transactions, taking place at a third party location – a warehouse. Producers brought their products to the warehouse in batches
("organized trade"), displaying them for sale, making comparisons among batches in terms of quality possible. Moreover, the warehouse was constructed in such a way as to prevent buyers and sellers from seeing one another: "those growers who had been caught up in personal relationships with intermediaries and shippers entered into impersonal relationships" (Garcia in Callon 1998: 20), and effectively removed the product from its context. This process had the three necessary ingredients necessary for the formation of a market in table strawberries:

- The existence of a perfectly qualified product
- The existence of a clearly constituted supply and demand
- The organization of transactions allowing for the establishment of an equilibrium price (Callon 1998: 20).

Central to the perceived efficacy and utility of the market are the forces of supply and demand, in which fluctuations in one (supply) are balanced by fluctuations in the other, according to most neo-classical assumptions of how the two interact and work together. For example, if the Canadian public began to display a new found interest in electronic schedulers (as indeed they have) at a point at which supply was low, retailers would be able to charge relatively high prices due to their high demand, creating a higher profit return per unit. This in turn – theoretically – would invoke an investment on the part of producers to produce more units – as well as bringing new producers onto the market and thus more competition – which would lower per unit costs as well as prices. Thus, a change in demand would provoke a change in supply, with the forces of both working in such a way as to create balance between them over time. This phenomenon, in terms of its dynamic at the level of a market for a product – speaks to an “equilibrium,” a concept underpinned by a belief in the self-correcting mechanism of the market (Kuttner 1997: 5).

(Others, however, such as Kuttner, argue that the market has proven itself unable to “equilibrate
supply and demand on the level of the economy as a whole [ibid. p. 8, my italics]. It may, rather, be applicable to the market of a particular good."

Associated with the 18th century economist Adam Smith, the "invisible hand" functions as a force that pushes the system toward equilibrium, in which rational economic actors made rational choices, maximizing satisfaction and minimizing cost, including time and effort. Equilibrium is defined as a balance of forces, referring to either the actions of individuals, a segment of the market, or the market on the whole (Lewin 1999: 16). In the case of a good, then "those forces that tend to influence the amounts offered for sale and purchase at various prices, in such a way that tend to push the price up, are balanced by those that tend to push them down" (ibid.). Thus, "equilibrium as a balance of forces is also a state of rest (or a state of uniform change)" (ibid.). Moreover, the notion of equilibrium implies an internal logic, or a convergence, to the actions of individual market actors, and requires almost perfect information and perfect foresight on the part of all economic actors.

Though the concept of equilibrium of a market dominated economic thought for much of the history of the discipline, it is largely considered today to exist only in pure form, or as a theoretical abstraction (Lewin 1999; Lachmann 1986). General equilibrium theory suffered near fatal death as the dominant paradigm in the discipline of academic economics with the rise of Hayek, Lachmann, and later, Schumpeter, who's notion of "creative destruction" further upset the balance, so to speak. In relative contrast to equilibrium, Hayek admits of the existence of equilibrium on the level of the individual market actor, though only a tendency towards equilibrium at the level of the system;

market transaction becomes a process of continuous improvement in the use of resources, but moving not towards an ever-extending horizon. 'Development depends not so much on finding optimal combinations for given resources and factors of production as on calling forth and
enlisting for development purposes resources and abilities that are hidden, scattered or badly utilized (in Shipman, 1999: 157).

Thus, “markets’ ability to cause disruption by changing expectations and revealing new preferences is transformed from a weakness of the system into its fundamental strength” (ibid. 157). In this scheme, markets are viewed as vehicles for ‘discovery’ (ibid.) and are, in essence, a sifting device, separating the good from the bad, the efficient from the inefficient, the better from the worse, etc., causing disruptive and changing expectations and plans on the part of market actors. Moreover, and perhaps most important, Austrian economics focus analytic attention primarily on the subjectivity of the individual economic actor, consistent with the philosophical and political place of privilege they grant the individual.

A third and relevant school of how the market works was introduced by Schumpeter, as indicated above, who further allowed for the disruption of any theoretical steady-state economy by building into his concept the notion of ‘creative destruction.’ Whereas neo-classical growth models do not allow for imperfections in actors’ knowledge and perceptions, and postulate a process of steady growth in which changes in one arena balance changes in another, the Austrian school, and even more so the Schumpeterian view, put change and technological change – as well as uncertainty – squarely at the centre of the workings and logic of the market:

In the Schumpeterian scheme, the limits of what can be done are never fixed and never clearly in view. Discovering what can be done is part of the problem for the problem of the individual actor… Information imperfections, and informational differences among the actors, are not complications of the basic structure, but are central (in Shipman 1999: 159).

However, even among pro-market economists, there is a greater or lesser consensus that the phenomenon of market exchange is imperfect in both its ability to distribute resources “equitably,” and to ensure important or necessary expenditures in the name of the public good.
Market outcomes may be considered efficient — and by extension “successful” — if the total benefits created by market outcomes is achieved at the optimal ratio of cost to price/benefit (Wolf 1993: 18). In other words, if the market system can produce and sell goods and services more efficiently than a non-market producer or provider (following this definition of ‘efficient’), then the market is performing successfully. On the question of the equity of wealth distribution in a pure market economy, economists are less interested “than with the relative precision of efficiency issues” (ibid.).

Economists speak generally of four types of market failures: “externalities and the public good,” referring to the inability of markets to produce adequate levels of goods or services that generate benefits that improve the condition of society as a whole but for which individual investment in a pure market system is prohibitively high (of which higher education is one); the formation of “monopolies,” where exchange is dominated by a single producer that achieves increasing returns against falling costs; “market imperfections” in which consumers do not have perfect or even adequate information concerning products (i.e. Hayek’s “coded” price is unsuccessful in conveying sufficient information) as is often found to be the case in higher education; and, “distributional equity,” which logically refers to the inability of market activity to equitably distribute wealth to all members of society. Very few economists denounce taxation in toto, in recognition of its positive, redistributinal effects.

The concept of market failures is relevant for a comparison of the ways in which different economists account for how markets work, and particularly when and in what circumstances government intervention is justified. Given that these four types of market failure are fairly widely recognized as drawbacks of pure market systems (though different economists may consider them minor irritants in an otherwise ‘best possible system’), government intervention is
considered appropriate in several general ways, or in instances, as Schotter notes, in which it is more appropriate that non-market institutions deliver services, "organized and coordinated by the state because private incentives fail to create and control them" (1985: v).

When is government action or intervention in a market justifiable? First, pro-market economists consider it is the primary job of governments to ensure that free market exchange can take place to avoid price-fixing and any other forms of co-ordination among either buyers or sellers (i.e. discourage monopolies and monopsonies), which would also ensure that consumers would be provided with sufficient information about products and markets. Second, that government intervention in the form of subsidization is appropriate to ensure that a sufficient level of goods and services are produced to the benefit of not only individual consumers but society at large. For example, in the case of higher education, the level of personal investment required of individuals to "purchase" a degree at its full cost may be prohibitive, creating a shortage of individuals educated at the tertiary level — doctors, lawyers, higher education professors and other professionals — which would have detrimental effects on the economy and society on the whole. And finally, most market economists agree that some level of taxation is appropriate as a device for the redistribution of wealth, and to fund or subsidize programs unaccounted for by the market that generate externalities or benefits to the society as a whole.

There are generally four scenarios in which government intervention is largely considered warranted, normally in the form of public policy or legislation, intended to intervene in the market where governments or the public perceive that the public good is served by such intervention, or in cases where market failures or non-efficient market outcomes occur. These scenarios are: 1) regulatory action (concerning health care, environmental protection, telecommunications and the public airwaves and the like); 2) "pure" public goods (internal and
national defence); 3) "quasi-public" goods (education, health care and postal service); and 4) the administration of transfer payments that fund services administered at other levels of government, such as welfare and day care.

Conversely, economists also speak of "non-market failure," which refers to the inefficient outcomes of governments and other sectors residing outside the market, such as publicly supported universities, churches, foundations, charities and other social service organizations (Wolf 1993: 38). The primary (and obvious) difference between the market sector and the non-market sector is that in the former, revenues are derived from prices commanded on the open market, whereas in the latter case they are derived primarily from obligatory taxes, "donations and other non-priced sources" (ibid.).

Milton Friedman begins his Capitalism and Freedom by proclaiming the role of government as being appropriately relegated to:

... preserve law and order, to enforce private contracts, to foster competitive markets. Beyond this major function, government may enable us at times to accomplish jointly what we would find it more difficult or expensive to accomplish severally. However, any such use of government is fraught with danger (1962: 2).

And,

[A liberal] is suspicious of assigning to government any functions that can be performed through the market, both because this substitutes coercion for voluntary co-operation in the area in question and because, by giving government an increased role, it threatens freedom in other areas (ibid. p. 39).

At this late modern stage in the development of capitalism, markets are increasingly stretching across national boundaries and traditional trading zones. In relatively recent years, markets have expanded to global dimensions. Globalization is essentially the process by which
national trade agreements and barriers forged by elected national governments are replaced by supra-national organizations and agreements, such as the World Trade Organization (WTO), the General Agreement on Tariff and Trade (GATT) respectively, as well as the rise of world-wide financial markets. More specifically, it refers to the loosening of nationally determined fixed exchange rates, capital control and managed trade (Kuttner 1997: 29) This latter category includes:

... macro economic management; social contracts between industry and labour predicated on noninflationary full employment; economic-development strategies that used subsidy, preferential procurement, and technology forcing by regulation; tight supervision and regulation of financial institutions; and the use of banks as engines of national development (ibid. 29).

The process of globalization also has political and cultural and aspects. Broadly defined, it refers to “the set of processes that first connect and then integrate societies, fragmenting and transcending the traditional social structures they confront” (Cameron and Stein 2000: S16). One of those ‘traditional social structures’ is the state – the dominant economic force of the last 200 years, particularly of the last fifty years. By virtue of the development of markets of a global nature, the state now competes for the primary allegiance of its citizens, in an age in which ‘cultural products with widely recognized icons are shared globally” (ibid.).

To its critics, globalization is a process by which the will of national governments are superceded by the will of capital with ever decreasing restrictions on its mobility. Critics and others further argue that there is less leeway for national political agendas and social spending on such items as welfare and education (Leslie and Slaughter 1997b: 36).

What does this have to do with trends in financing higher education? One of the hallmarks of this era in which trade agreements seek increasingly to break down the barriers between nations and expand trade zones free of impediments to trade is the supremacy of the idea
of the market. The idea of the market is premised on maximizing the choice of individual consumer-citizens by allowing free trade – not governments – to generate wealth and employment. And markets, not governments, are a more suitable instrument for judging such things as quality and efficiency. As Kuttner (1997) argues, the notion of the centrally planned economy with strong government participation is out: government participation in the economy – and in providing public services – should enhance individual choice.

When it comes to higher education, finance policy changes introduced in England, Australia and the Canadian province of Ontario can be seen to enhance choice: to a large degree, governments have seen some necessity in replacing the academics with the market when it comes to judging quality and efficiency. Of course, there are some limits to applying the market metaphor to the higher education enterprise, and those will be discussed in the following chapter in which I review the marketization literature as it has been applied to university finance policy.
Education with its many complex characteristics is more difficult to model than the demand for goods such as guns or butter.

(Stokes 1988: 33)

Chapter II

‘Emerging markets’ in higher education

In the previous chapter I have examined a number of the defining features of markets and market philosophy, with attention paid to some of the most prominent theorists associated with strongly and elaborately articulated rationales for the market form. The task now is to imagine how markets, their inner workings and their characteristics as they have been described above in purely economic terms may be applied to the changing political economy of university finance, as well as the limitations in applying those terms to the university sector.

There are, of course, some who prefer not to be required to imagine the union between the market model and higher education. Kenway et al (1993),Marginson (1997) and others regard competition, profit and other characteristics of the market as inappropriately applied to the educational enterprise due to the incompatibility of market values with those embodied in a universal, no user-fee education system.
Markets are not premised on the assumption of fairness or equity. While their proponents make the claim that there is general benefit from competitive self-interest, they also argue that those who play according to the rules and are best at the game deserve the greatest rewards. Ultimately, markets operate according to the logic of profit, only in certain sets of interests and let the 'weak' go the wall. They work to produce a selfish, individualistic culture in which the main moral imperative is gratification, not the collective good (Kenway et al 1993: 120).

It is, however, not the focus of this thesis to determine whether or not markets serve the goals of equity or access, nor is it to determine whether the educational sector is an inappropriate venue for the values of the market. It is, rather, to understand what is meant by marketization in the context of education; to determine whether recent policy changes in Ontario, Canada, can be viewed through this lens; and ultimately to enrich the understanding of higher education markets as marketization has been developed in Ontario.

Before I begin examining how the notion of markets and marketization have been conceived, shaped and reshaped in the education finance literature, I will note some of the arguments made that must qualify the application of the concept of the market in the context of higher education, and whether nor not the concept can be applied at all. I will also argue that marketization presents not simply a move toward private markets or privatization, but rather how the 'market as metaphor' offers government a new way of organizing reform in such a way that does not entail state forfeiture of control of universities.

Marketized compared to what?

Relative Market Forces in Higher education

A fair degree of consensus exists that there is no such thing as a perfect or free market in higher education (Dill 1997a; 1997b; William 1985; Breneman 1981). Equally strong arguments
suggest that the operation and utilization of market principles is fairly weak, as Breneman argues below:

- That institutions (as "firms") operating in the higher education market are not primarily motivated by the profit motive; that the firms in the market have a diversity to their missions; and that non-quantifiable notions of status and prestige, and not profit, are what drives such institutions.

- That price fails as a reliable signal of either the product's quality or cost. The range that does exist more accurately reflects variations in the degree of status and prestige attached to the institutions. Moreover, the range of subsidies available to the student-consumer from state, federal and institutional sources further removes price from functioning in any pure market sense.

- That evidence suggests quote strongly that the student-consumer operates in a ‘market’ in which there is largely insufficient information regarding the range of products and the implications of purchasing one product over another, and that further, corrections to educational choices made are not easily rectified by switching brands.

- That the range of subsidies that are offered public institutions in contrast to private firms remove the possibility that comparisons can be made for "comparable services" in the two sectors, which also affects prices charged. (Breneman 1981: 25).

There is no doubt an array of both products and prices in various systems of higher education, most notably in the United States, and to some extent price – or tuition – functions as a market signal. However, Breneman points out that price often bears little resemblance to actual costs, and prices are often masked by deep discounts, at several levels. Firstly, federal, state and
regional governments in both the United States and Canada allocate substantial amounts of student aid, which functions as a portable subsidy. Moreover, American private and public institutions, and increasingly universities in Canada, are offering additional subsidies in the form of scholarships and institutional grants. In other words, prices are often adjusted to the profile and circumstances (academic ability, financial need) of the individual consumer, conditions antithetical to a market.

Free markets also depend on their participants' knowledge of the full range of products available. As Reisman (1998) notes rather carefully, "a market becomes more nearly free when consumers gain information about the products competing for their choice" (225). But again, Breneman, speaking of the United States, argues that price is not a reliable index of quality or product in the face of sometimes inaccurate and insufficient information. This insufficiency, he argues, is explicitly recognized in continuing efforts by government to require universities to publish certain types of information, such as job placement rates, degree completion rates, loans default rates and the like (Dill 1997b). According to a 1977 study of the amounts and types of information available to student consumers, such as the deadlines for dropping courses and obtaining full refunds, the American Institute for Research found considerable differences in institutional practices (Reisman 1998: 225); and presumably, variations in the publishing rules from state to state. This has spurred in part a "secondary" market in information, such as the US News and World Report publication. This publication ranks institutions against others in their Carnegie classifications, and provides a vast array of different types of information on the products on offer in the higher education market, such as average class size, the percentage of instructors with PhDs, the academic rankings of its successful applicants, average institutional
grants and loans awards, and a myriad of others. Canada, too, has its *US News and World Report*, in the form of the annual *Mcleans* ranking. It, too, provides similar sets of data.

However, some observers, such as McDonough, Antonio, Walpole and Pérez, question whether the emergence of this secondary market is a democratizing force vis a vis access to information on higher education institutions (1998). These ranking publications no doubt make certain types of information available to those students who are in theory financially unable to visit campus, however McDonough et al suggest in their American study that those students who are more likely to be able to visit prospective schools are the ones more likely to purchase the rankings. They conclude:

> We believe that the proliferation of college guide and rankings news magazines may not be indicative of democratization but rather of privatization. As a commodity, it is likely that those individuals who can afford a newsmagazine will purchase it, yet our data show that low-SES students are probably not even using a $6 magazine (1998: 530).

Nonetheless, these ranking materials do, in theory, make information more readily available and contribute to the "perfect information" condition required of markets.

Similarly, Leslie and Johnson (1972) argued early on in the education markets discussion that the elements that define and ensure a free market are impossible to achieve in the context of higher education. Perfect markets require the following:

- Perfect competition requires every economic agent in the market to be so small, relative to the total market, that it cannot influence the market price in any way;
- The product of any one seller must be identical to the product of any other seller;
- All resources must be perfectly mobile, that is, have the "freedom of entry and exit";
- Producers, consumers and resource owners must possess perfect knowledge (1972: 6).
The presence of all the above ingredients constitutes and ensures a perfect market. The perfect market, however, exists only in the abstract, even in markets of privately produced goods and services. If it's existence as a theoretical notion only is the case for the market in guns, the market in butter or any other private market, it is even more the case with higher education, which most countries recognize as both a public and a private good, and thus employ both private and public means of financing. Subsidies in some form or another – institutional reliance on federal or other sources of funding for research; regional, state or federal subsidies that are channelled directly to students in the form of portable grants, loans and other forms of student aid; or tax payer support for operating grants – are near universal in some measure. However, they impinge upon a ‘free’ market. And the mere presence of student aid, the importance of federal or regional funding sources, the myriad of regulatory instruments in all systems of higher education, preclude a either a free or perfect market model in higher education.

So what is the sense of applying the concept of the market to higher education? The answer lies in part in Clark’s triangle of co-ordination, a concept which recognizes that there are in almost every system three forces that serve to shape all systems of higher education: 1) the forces of the market; 2) the forces of academic control, or the ‘academic oligarchy’; and, 3) the role played by the state in regulating and controlling systems (1983). It is important to note, however, that Clark's notion of the market was a purely private one. His triangle did not allow for the use, on the part of the state, of market mechanisms to assist it in allocating resources. Thus does the triangle become a square? Not necessarily. Perhaps what is needed is an expansion of the notion of Clark’s market. As jurisdictions move away from academic autonomy as new policy directions are adopted, the dual influence of market and government is exerted, positioning it in
the triangle in such a way that indicates that neither the market nor the state is the dominant organizing principle.

Thus this triangle can be used as a way of considering shifts in the relative strength of one organizing principle over another. It can be considered an instrument in recognizing the ways in which the dominance of the state gives way – in large or small part – to the dominance of market forces, or that the power of academics is diminished at the expense of that of industry or market interests. For economists, discussions of a market in the context of higher education may seem entirely inappropriate, or that an excessively broad definition and conception of the market is being employed. However, the case studies examined later in this thesis will shed light on its use when considering the shifts from the emphasis on academic control to market influence in public higher education sectors.

Higher education markets defined

According to the Organisation for Economic Co-operation and Development, member countries are either enacting or contemplating: 1) the adoption of more sophisticated formulae for allocating funds for teaching and research; 2) developing separate mechanisms for funding teaching and research; 3) increasing the role student fees play in financing the system; and, 4) implementing more competitively based ‘bidding’ schemes for public funds (OECD 1990: 79). These policies serve to require institutions to engage in “competition for moneys, whether these are for external grants and contracts, endowment funds, university-industry partnerships, institutional investment in professors’ spin-off companies, or student tuition and fees” (Leslie and Slaughter 1997b: 11). A longer list of indices of market-like behaviour includes the sale of educational services and products, and substantive institutional reorganization – including
administrative — that better supports the successful procurement of competitively allocated funds, both external and internal in source (passim).

In their work *Academic Capitalism*, Leslie and Slaughter (1997b) take up the question of institutions' increasingly entrepreneurial behaviour, and their choice of titles for their work was also informed by human capital theory, in which faculty as highly skilled labour constitute one of the three factors of production, and as such contribute to economic growth. It is through this lens that they view what they see as the increasingly entrepreneurial activity of faculty, as they progressively harness the resources and administrative apparatuses of universities to market their wares, work with spin-off companies and their marketing arms, and draw on the same offices to compete for and obtain funds from both public and private sources, internal and external. “Their [faculty] scarce and specialized knowledge and skills are being applied to productive work that yields a benefit to the individual academic, to the public university they serve, to the corporations with which they work, and to the larger society” (Leslie and Slaughter 1997b: 11).

The process of globalization provides the backdrop to the changes in university finance that are described and documented by Leslie and Slaughter. As outlined in Chapter II above, the combination of the opening of global financial markets, the rise of supra-national trade protocols and governance bodies, combined with the relative decline of the nation state means that pressures to reduce social spending in one nation become pressures of similar magnitude in a trading partner.

Leslie and Slaughter argue that there are four facets of globalization that will profoundly affect education. They are:

- A decrease in available government moneys for such spending items as education, as global pressures to reduce debts and deficits come to bear on social spending decisions;
• The growing centrality of such fields as engineering, computer science, bio- and medical technology and others that are closely involved with markets, particularly international markets;

• The tightening of the relationships between multinational corporations and state agencies concerned with product development and innovation; and,

• The increased focus of multinationals and established industrial countries on global intellectual property strategies (Leslie and Slaughter 1997b: 37).

Leslie and Slaughter’s brief discussion concerning the choice of title for their work, *Academic Capitalism*, proves instructive in understanding their definition of marketization as it is applied to higher education. A small portion of the introductory chapter describes why this title was chosen, and why others were discarded. They make particular reference to an uneasiness on the part of the authors’ Australian colleagues, who felt the term “capitalism” served to downplay the continued and significant role that public funding plays in its system of universities, as well as undermining the role the government continued to play in steering and regulating the system (1997b: 9). They, however, settled upon “academic capitalism” for its allusion to the “encroachment of the profit motive into the academy”:

> Of course, the word capitalism connotes private ownership of the factors of production - land, labour and capital - and considering employees of public research universities to be capitalists at first glance seems a blatant contradiction. However, capitalism is also defined as an economic system in which allocative decisions are driven by market forces. ... By using academic capitalism as our central concept, we define the reality of the nascent environment of public research universities, an environment full of contradictions, in which faculty and professional staff expend their human capital stocks increasingly in competitive situations... They are state-subsidized entrepreneurs (*ibid*. p. 9).
Integral to the theory of academic capitalism is the introduction of markets and market mechanisms in education finance, defined by Leslie and Slaughter as a constellation of forces, including declines in block grant allocations and subsequent shifts in "resource dependencies" that require universities to compete for funds to make up for lost income from a variety of sources, including governments, private corporations and students (1997b: 239). Always careful to assert that the subjects under study are public US research universities (and all institution types in the other three countries, public and private), the authors add in a footnote that, "of course, the 'rise of market' forces usually occurs through direct government action or government withdrawal from regulatory practices that permit these forces to operate" (1997b: 239).

Leslie and Slaughter argue that many market mechanisms have long been present in the American system of higher education in both the public and private sectors – and, it must be added, for the 'system' on the whole that is composed of these two sectors (1997b). These mechanisms were transplanted from the private higher education sector to the public sector through quite deliberate government initiatives aimed at increasing choice for the student consumer, by redirecting funds from block grant allocations to student aid programs (Leslie and Johnson 1972). During the period of 1948 to 1973, US state governments tended to allocate operating funds to public institutions following a system of rough justice, where universities within the same state saw funding increases more or less matching growth in student enrolment. At the conclusion of that period, three ingredients blended together, leading to policy changes at the federal level that served to strengthen the higher education market (1997b: 72).

First, the declining fortunes of private U.S. colleges and universities; second, the increasing public policy focus on 'equality of opportunity'; and third, the burgeoning sense that public institutions were insufficiently responsive to the needs of the public, without adequate
mechanisms of accountability (Leslie and Slaughter 1997a: 243). The prescription to all these ailments resulted in a decrease in government contributions to public institutions (with notable tuition increases in that sector in partial compensation to the universities' bottom line), and an increase in direct user subsidies (also in partial compensation, this time to consumers, for tuition increases). As the authors argue, financially struggling private, not-for-profit institutions were served well by legislators – many of whom were graduates of private universities – predominantly through a more generous system of user subsidies that prevented a large-scale wave of school closures: The private system was substantially strengthened by these changes (Geiger 1986: 231). It also served to strengthen the role of the student as consumer, granting individuals greater choice through more generous portable subsidies. This was also perceived as a way of addressing the question of distributing educational opportunities in a more equitable manner. In the end, these shifts in public and legislative opinion, and subsequent policy changes, functioned to both subsidize the private sector and boost the strength of marketization. It did so, in theory, by making private education more affordable and thus strengthening the education market by increasing choice for the student-consumer. Subsequent policy changes in the following 30 years have called for governments and universities to leverage funds from a variety of other sources, in part to satisfy growing student demand and universal access, alongside pressures of a global nature to trim public sector costs (Dill 1997a).

It is clear in the higher education literature that governments play a continuing role in marketization regimes as well as systems in which marketization is said to be underway. Governments play a major role in trade, commodity and other forms of markets, for which they construct and continually alter the framework for transactions, contracts and the like. Perhaps surprisingly, notions of government action and control do not lag far behind in discussions of the
emergence of markets and marketization in higher education. For Leslie and Slaughter, the concept of the market is applied to a system of public universities that are compelled by changes in regulatory regimes (re-regulation, deregulation) to seek out funds from a wider variety of sources. Furthermore, these regulatory changes go hand-in-hand with changes in the system of financial rewards and penalties connected with public funding regimes (1997b). Moreover, embedded in their analysis of the logic of higher education markets is their emphasis on the behavioural responses of universities and faculty, behaviours which are increasingly competitive by nature, in such a way as to “harness the market as a means of higher education reform” (Williams in Dill 1997a: 164). This embeddedness, as will be argued below, occurs at the expense of other nuances.

The nature of this type of higher education reform, argue Leslie and Slaughter, is a consequence of the expansion of world markets, and has sought to create a tighter linkage between universities and the marketplace, in terms of an emphasis on science and technology research with commercial applications, and the production of skilled graduates in fields that enjoy a closer proximity to the market. Set against these global trends and pressures is the status of the rather ill-fated and increasingly unfashionable unconditional block grant, reduced in part as a response to these pressures. Leslie and Slaughter argue that the relative decline in the block grant after its relatively brief, post-World War II history – which constituted a large and important source of universities’ operating income – creates a destabilized environment for universities, resulting in resource dependencies. According to resource dependence theory, external agents that provide the bulk of funds to an institution wield substantial control, thus internal members of an organization are highly dependent upon external agents (Pfeffer 1978). Institutions such as universities interact with and depend on the external agents who control the distribution of the
resources that are of such importance to the operation of universities. Internal agents of a dependant organization expend considerable amounts of time, energy and resources strategizing as to how best to obtain the resources held and distributed by external agents. "Negotiating exchanges to ensure the continuation of needed resources is the focus of much organizational action" (Pfeffer 1978: 258).

With respect to finance, organizational dependence is a function of three factors: 1) the "relative magnitude" of the exchange; 2) the degree of discretion that the organization has over the use of those funds; 3) and the "criticality" of the resource to the institution, which refers to the ability of the institution or organization to function more or less in a similar manner in the absence of that resource (Leslie and Slaughter 1997b: 69). To universities, the unconditional block grant is an extremely important resource. The nature of those funds (in magnitude, discretion in use and criticality) makes it impossible to replace. Thus, this change in the form of US federal funding for post-secondary education, from a shift in the relative emphasis on the block grant to a user subsidy such as student aid, would require institutions to shift their energies to make up for that lost income. Though federal moneys shifted to student aid may not in theory mean an overall reduction in federal spending, obviously institutions cannot rely on the this form as they had done so on the block grant. And while governments may allow tuition increases to compensate from reductions in block grants, or may indeed grant institutions the freedom to increase tuition at their own rates, the use of such revenue may be subject to another set of potentially unstable conditions. For example, in the province of Ontario today, although tuition increases have been great, a portion of that revenue must be used to provide student aid. Whatever the case, this increase in reliance on tuition fee revenue will require universities to expend more effort to ensure enrolment levels are maintained or increased, which in turn may
require institutions to focus greater attention on, and investment of resources in, recruitment
activities, enrolment management and marketing.

Thus, with the relatively small but important shift away from block grant to student aid,
institutions were compelled to seek alternative sources of income, increasingly on a competitive
basis (Leslie and Slaughter 1997b: 65). As institutions are required to seek income from other
sources, so they direct increasing amounts of time and energy on the part of internal agents to
secure these replacement funds. Universities shift institutional attention toward raising funds from
the private sector, including corporations and individuals, in the form of philanthropy. Both
institutional resources and faculty time and energy are devoted to securing external support for
contract research. As block grants are reduced, the behaviour of internal agents change in an
attempt to recover lost funds:

Universities seek to capture alternative revenues. But substitutes often carry stipulations; they
require the performance of certain tasks. Collectively and individually, faculty perceive their
greatest potential source of additional revenues to be in grants and contracts with government and
with the private sector. Taking government block grants (as well as tuition fee revenues) as a
given, they focus any marginal (additional) efforts on proposal writing, patenting, and developing
and maintaining relations with potential funders (Leslie and Slaughter 1997b: 71, italics in
original).

Though these block grants may occur at the ‘margins’ of an institution’s overall income,
the time allotted to securing replacement funds is significant in comparison:

With financing changes there has developed a multiplier effect by which what might appear to be
relatively modest revenue changes have been translated into major alternations in how academic
spend their time. Part of the reason is that by the mid 1990s universities in many OECD countries
possessed little organizational slack. Most financial flexibility had been dissipated with the first
few rounds of financial cutbacks. Additional revenue reductions had almost unprecedented
consequences (Leslie and Slaughter 1997b: 71).
In many cases block grants constitute the largest portion of an institution’s revenue from a single source. It is also a source of a large degree of independence given, in many jurisdictions, its non-stipulated nature. Changes, even at the margin of this block grant, create significant organizational turbulence. Even if funds previously allocated through block grants were to be distributed through earmarked funding envelopes (creating, in this hypothetical situation, a consistent level of government funding), additional energy and time spent on the part of internal agents would be required. Earmarked funds often entail an element of competition; they are accompanied by accountability mechanisms and outcome-measurements not required of block grants. Energy is thus directed both to securing the funds in the first place, and accounting for the way they are used.

The centrality of the notion of competition and its increasing role in the allocation of funding – both public and private in origin – is also emphasized in the work of Dill (1997a; 1997b). Universities, he argues, now operate in numerous markets, for professors, students and research funds. In contrast to Leslie and Slaughter’s emphasis on the development and process of marketization, with the importance they place on resource dependency theory and the “domino effect” of shifts in resource dependence, Dill focuses on the attraction of the perfectly competitive market as a guide to reforms within higher education. Citing the characteristics of such a market, Dill argues that reforms of a market flavour have been introduced in the U.S. to ostensibly achieve more efficient and equitable allocation of higher education.

Dill (1997b) provides four examples of public policy trends in global higher education financing patterns that exhibit a reliance on, and derive theoretical coherence from, the logic of markets. The first, encouraged by the economists of such global organizations such as the World
Bank and UNESCO, is the trend toward "levelling the playing field" between private and public institutions through the deregulation of the public sector, and directing increasing subsidies to the systems' users. The theory behind such a move is that in so doing, developing countries can more easily shift from an elite to a mass system, in the face of severely low public spending capacity.

Dill's second model of marketization is the creation of "quasi" markets in higher education, as in England, in which essentially the principles of competition are imported into public funding allocation models. His third, and one increasingly a reality in both North American and European systems, is the requirement of institutions that they release greater amounts of information to the student consumer, and develop mechanisms for achieving greater accountability for how these institutions use their funds. And lastly, the tendency, also a global phenomenon, that universities increase user fees in public systems, decrease institutional operating support and increase the funds available for student aid programs (Dill 1997b).

Like Leslie and Slaughter, Dill argues that universities and the governments that fund and regulate them are under increasing pressure to change the way public investments are made. To improve efficiency and make institutions more adaptable to the changing expectations of the global economy, importing market mechanisms are generally viewed as a superior means to achieving these reforms than are more traditional ways. The strength of the market metaphor won out over other, more traditional sources of change agents or locations of decision-making, such as the state and the academic oligarchy.

Stressing the intersection of public policy and marketization, Dill argues that there are three pivotal moments of state intervention. These are the broad categories in which all types of government control, regulation, action, initiative and all laws reside:
1) **Conduct** of consumers and suppliers of higher education in such areas as pricing of academic programs, research, and services, and inter-institutional co-operation or collusion, such as establishing property rights, anti-trust laws, and academic tenure;

2) **Structure** of the relevant market, which includes the number and size of consumers and suppliers, the degree of differentiation distinguishing competitors' academic products, the presence or absence of barriers to entry and exit for new academic competitors, and the availability of substitute products. This includes taxes and subsidies (tuition fees, vouchers), freeing markets (deregulation, privatization), and simulating markets through the establishment of quasi-markets;

3) **Basic conditions** such as the general framework of law within which higher education operates, such as price and quantity regulation, indirect information provision and direct information provision (Dill 1997b: 172-173).

Dill argues that use of the market metaphor in higher education reform is in part a response to the perceived failure of governments to determine supply, demand and the appropriate distribution and allocation of educational resources and programs, which has lead to the unleashing of market forces through public policy instruments (1997b). This is achieved through the relaxation of regulatory regimes and the devolution of responsibilities to institutions themselves.

Consistent with Dill’s stress on viewing government as a less than silent partner in the process of creating and stimulating markets, he asserts that relaxing regulation in one area may create increased government control, or at the very least greater involvement, in another area. For example, the process of delegating discretion to the institution for finances or fee levels may give
rise to additional rules for accounting for the ways in which funds are used, as is the case, he asserts, in the US and the UK (1997b: 176). A further example is provided by Ontario, cited above: In that province, universities have been granted greater freedom to set tuition fees in certain areas in exchange for directing a portion of fee increases to institutional student aid programs.

An important means of how governments interact and shape markets is through regulation. Regulatory measures exist in higher education largely to control the behaviour of sellers in the market, and concern themselves with the prices of various services provided by institutions. One of the major forms of regulation concerns tuition fees, which has been used by various governments to control the forces of supply and demand for undergraduate education. Governments do this through a variety of means, including tying the fee increase permitted to the operating grant, so that tuition fee increases over a certain government mandated level results in a reduction in the operating grant (they may, of course, also simply set the fee). Other potential means of penalizing institutions is to limit the accessibility to student assistance programs of an institution’s students. Government regulation also comes in the form of limiting the funding of a number of spaces in such high-cost programs as medicine or dentistry (Dill 1997b).

As discussed above, Leslie and Slaughter focus on the process whereby institutions react to government reductions in operating support, and the implications for an institution’s resource dependencies. Comparing Leslie and Slaughter’s conceptions of markets in higher education with that of Dill’s produces no excessive degree of conflict or tension, but rather a markedly different emphasis. Dill’s investigation of the manner in which governments participate in the shaping, creation and stimulating of market forces admits of a greater recognition of the important role governments play in higher education markets. This can be partly explained by the
recognition that, as Dill and Sporn argue, “major universities, which in all countries, even in the United States, are increasingly seen by their governments as being among the remaining few and strategically most important state enterprises” (1995: 1).

Thus, the market is a metaphor, providing a conceptual framework for the redesign and reconstruction of systems of university finance. However, it is the state that draws the blueprints of change and remains the architect of such change. Alternatively, in Leslie and Slaughter (1997b) and Leslie and Johnson (1972), marketization is a domino effect that begins with the initial reduction in the block grant and the subsequent institutional attempts to make up for lost funds. Their treatment of the process suffers to some extent of reductionism, in which institutional actors shift energies in the face of declines in block grants and governments somehow take a back seat in driving the finance and organization of universities. It serves to make invisible the political choices required in public policy change which embraces marketization.

Dill, instead, allows for the creation of markets in higher education and in the public sector in general as a political choice. Dill’s approach allows for three dimensions of marketization that are not permitted in Leslie and Slaughter’s work.

1) That the market and the logic of perfectly competitive markets functions as an ideological construct, a political option that in the last 20 years, and in particular since the fall of the Soviet Empire, is enjoying a renaissance, even within the context of the public sector.

2) That an emphasis on the partnership between governments and markets allows for the myriad ways in which the creation of markets does not necessarily entail a more distanced relationship between the state and higher education institutions.
3) That this notion of marketization that recognizes its facets, degrees and the continued control exerted by the state is precisely what makes this a fundamentally different experience than privatization.

As economists themselves assert, there is no such thing as a perfect or free market; it is thus regarded equally as an ideal, an abstract concept, as much as a rather organizing principle of most economies in the world today (Kuttner 1997; Haworth 1994; Shipman 1999). However, its status as a political option is to some extent diminished by the fairly reductionist quality of resource dependence theory. To its proponents, as noted above, the market is a panacea for a host of unpleasantries, ranging from totalitarianism and communism (Hayek 1976; Friedman 1962) to the under investment in professional education (Friedman and Kuznets 1945) to government deficits and debt (Meek 1997). The market is spoken of lovingly in grandly therapeutic ways. It is regarded by some as the most superior moral, economic and philosophical order. Harnessing the market for the purposes of managing reform in higher education “is advanced as a kind of medicinal compound which is most efficacious in every case” (Rae 1996: 60).

To others, however, “in the post modern financial jungle, ‘the market is a predator. It looks around for a vulnerable currency and strikes it, unmercifully, like a cobra’” (quoted in Kenway et al; 1993: 120). This ideological dimension, the market’s strength as a metaphor, is downplayed in the work of Leslie and Slaughter, but is important to understanding the motivation behind the introduction of the use of market mechanisms in resource distribution in higher education systems.

Associated with this same point is that the chain of events outlined by Leslie and Slaughter suffers to some extent from a rather mechanistic view of globalization and its effects.
While it is true that governments are under increased pressure to spend their money wisely, how much they spend has continued to be expressed as a political choice on the part of a particular political culture in a given jurisdiction. The relationship between higher education spending patterns and the state of an economy has always been loose. According to Skolnik, dramatic policy changes with respect to higher education in the past several decades are found to be related to a variety of factors, including a change in government, and the nature of the rate of economic growth (1987: 156). Skolnik also notes that a study by Slaughter and Silva (1985), which purported to find a relationship between higher education spending and the rates of employment growth by state, contained enough variations to preclude a reliable conclusion of cause and effect between the two phenomena. Rather, higher education spending tended to increase in economies which enjoyed growth in the high-tech sectors, versus the more traditional sectors of manufacturing and the like (ibid.).

Secondly, it is important to understand that the relationship between the state and institutions is recast – but not necessarily diminished – when governments turn to the market model as a vehicle for reform. As noted in Meek and Wood (1997: 254);

Government is not totally disinterested in the regulation of higher education as is evidenced by an increasing emphasis on quality control and other system-wide accountability measures. But in order to ensure that higher education will cost less while serving national economic priorities better, the concept or metaphor of the market has become ‘central to a number of discourses which constitute the current policy agendas of governments... and education institutions. Education is currently thought of in market terms and markets of various sorts are guiding priorities and funding.

As Kenway, Bigum and Fitzclarence argue, the combination of increasing government intervention in education on the one hand, and the complementary forces of commercialization and privatization on the other, seem incompatible. However, “these two strategies come together
in the sense that the state produces the frameworks within which privatization and commercialization happens, it promotes certain values to guide these processes and undertakes the ideological work necessary to ensure they are public accepted" (1993: 105). The market provides the rationale – the metaphor – to insinuate "economic objectives at the heart of the educational process, without appearing to impose economic rationalism in a direct way" (Marginson 1993: 195). And as Dill notes, freedom and autonomy granted in one arena often results in greater controls throughout regulatory instruments (1997: 173); What the government giveth in one form of freedom, the government can taketh away – and does.

The combination of these two points – the market as metaphor, alongside continued or enhanced government involvement in the operation and regulation of the sector – returns the discussion to the notion of the quasi-market, one that essentially captures systems in which the state remains a major player – not only in erecting, maintaining and strengthening strong regulatory regimes and in operating-fund support – but also in its use of the mechanisms of the market to organize finance, reform and the dynamics between institutions. Through the organization of 'quasi-markets,' the state's role is transformed from being a provider of higher education to that of purchaser of higher education:

Quasi markets differ from real markets in several respects, the most noteworthy being that while student consumers may express their preferences by their choice of educational programs, their choices are not purchases. Instead, purchasing is centralized in a monopsonistic government agency acting on behalf of consumers (Dill 1997: 177).

It is this understanding of the many facets and underpinnings of marketization that permits us an understanding of the difference between marketization and privatization. Although privatization is correctly asserted to be an aspect of marketization, it is by nature a fundamentally different experience. Of course, this requires some review of what is broadly considered the
facets of privatization and its essential features. However, it also begs the question of, what are acceptable definitions of public and private? In the following chapter, some brief definitions will be offered, with some attention paid to their meanings in particular political jurisdictions, including Ontario.
Chapter III

The public, the private and the in-between

As in the discussion of any fairly abstract concept, subject to variations in practice, and informed by geography, politics and culture, defining privatization in a precise manner is difficult: The term has taken on rather broad parameters (Russo, Sandidge, Shapiro and Harris, in Murphy et al 1998: 5). As Murphy et al. note, “the word can signify something as broad as shrinking the welfare state while promoting self-help and volunteerism, or some as narrow as substituting a term of private workers for an all but identical team of civil servants to carry out a particular task” (1998: 6). It, like the notion of the “market,” has its ideological dimensions. It is regarded by some of its proponents as a vehicle for the strengthening and promotion of democracy, of choice, and of “serving the interests of equity” (ibid. 7). Others argue that the greatest enemy of any enterprise is the presence of monopoly and the absence of competition, particularly in education (Doyle in Murphy et al 1998: xi). Long-time proponents of free markets such as American economist Milton Friedman argue that a strong private education sector is required to “force [the public sector] to improve in order to hold their clientele” (ibid.).

As a process, its facets are defined as the following:

1) Load shedding, which refers to government withdrawal of the provision of a public service, or the creation of an arm’s length agency to carry out the provision of the service, often regulated by the government.

2) Asset sales, which refers to “asset divestiture” in which government sell off such things as lands and buildings to private concerns.
3) Volunteerism, "refers to situation in which government-like services are financed and delivered privately but without the use of traditional market mechanisms," and may involve government recruitment of those who work for no remuneration, and who carry out activities and services once delivered by employees of the state (Murphy et al. 1998: 9).

4) User fees, which governments introduce for services previously financed through the tax systems.

5) Contracting out, in which government and public institutions cease in providing a good or service and instead contract a private agency to do so.

6) User subsidies and vouchers, a portable subsidy provided direct to the individual consumer, mean to maximize consumer choice, redeemable at a participating supplier of a good or service (Hatry 1983; Murphy et al 1998).

7) De-regulation, in which governments loosen the conditions it imposes on the supply side of a good or service.

The term's capacity as a descriptor for a great range of changes and processes reappears when applied to the area of higher education. Consulting higher education encyclopaedias on the definition of "privatization" does not serve the cause of the search for clarity or precision. The Oxford encyclopaedia contains a nine-page entry, which sets up a continuum of possible "acts" of privatization, consequently outlining a myriad of policy and finance changes that could, according to the author, constitute privatization. Beginning with its political and economic impetus, Jones states:

Faced with the steadily rising costs of mass higher education, many governments have sought to relieve the burden on the public purse, and perhaps increase education's social and economic efficiency, by permitting and even encouraging growth of private higher education, and/or by
introducing such private sector, market-oriented practices as tuition fees, sales of goods and services, and the encouragement of individual and corporate philanthropy (Jones 1992: 1445).

More than just conceptual ambiguity existed between the notions of ‘public’ and ‘private’ in the United States between 1776 and 1876 (Levy 1986), if indeed the last one hundred years has helped straighten out the matter. During the latter part of the 18th century and most of the 19th century, American private universities received substantial amounts of public funds and had state legislators sit on their governing bodies: even after legislators left those boards, government funds often increased, while not all public universities received public moneys upon their founding (ibid.). It is a distinction that took shape in the United States largely during the 19th century (Jones 1992). In fact, the US Supreme Court decided in the Darmouth Case of 1819 that a charter granted by the state of New Hampshire in 1769 was not subject to changes by the state, hence the college was private and could remain so. In 1817, the legislature had increased the number of trustees beyond the number stipulated in the original enabling document, and created an additional body with veto power over the trustees. However, the Supreme Court regarded the charter as a contract between the state and the corporation’s trustees covered by the US Constitution and thus could not be changed or modified by the state. Hobbs notes that, “the power of the sovereign over its corporate creations was now severely circumscribed, and two-thirds of the century were yet to pass before the alternative device of the regulatory commission would come into its own. Public funding of higher education all but ceased; the era of the private college had dawned” (1978: 2).

Today, most institutions and systems of higher education involve a mixture of private and public funds and control; while privatization may mean the creation of a large and visible private
sector, it can also be seen as a greater or lesser shift in the balance of finance and control in higher education (Jones 1992).

Relatively recent changes in the financing and organization of higher education in Alberta has been described as privatization by Rae (1996). He argues that in addition to the list of criteria as outlined above, understanding the term is served well by broadening its definition. He defines privatization as a “shift in the balances of finance and control from public to private,” (ibid. 63) and that its implementation is achieved through the “encouragement or toleration of private educational institutions or through the fostering of private investment in public systems” (ibid. 65).

The means by which privatization is achieved includes increased reliance on tuition fees, philanthropy, entrepreneurial activities and the introduction and toleration of, as well as support for, private higher education providers. The increase in institutional reliance on tuition fees is a form of load shedding, in which the “government passes the burden of funding on to the user” (ibid. 66). The increasing importance of philanthropy as a second source of income of private origin also signals the “shift in the balance of public and private sources” (ibid. 63). Although a marginal point, his contention that philanthropy is an unimportant source of income in countries with high rates of participation in higher education is not true, as in the case of the United States and to a lesser degree (and of relatively recent origin), Canada. Moreover, he states: As well as offering plural funding sources the mobilization of private donors can change the balance of control by providing a potent political force and buffer against government encroachment or, as Jones observes, "a formidable political force (often conservative) within the institution itself” (quoted in Rae 1997: 67, parentheses in the original). Though it is true that diversifying funding sources is one way – in theory, at least – lessens the influence of government on the inner
workings of higher education institutions, it would be difficult to find any research that demonstrates conclusively that donors have a conservative effect on an institution through donations, though it is not even clear in what way the term conservative is intended.

"Conservative" may have various meanings: it may refer to the institution's (in)capacity to change and innovate; it could apply to the political nature of the institution. If anything, the university may make commitments to a research regime or a program of study in which it had not planned to engage as a result of the desire not to turn away a donation. In other words, the temptation to build an endowment and please the community of funders may override previously made academic planning decisions. Whatever the case, and leaving conjecture aside, further research is required on the steering effects of philanthropic contributions to an institution's internal resource allocation, and the interplay between philanthropic giving and an institution's autonomous academic planning activities, before any such postulations are attempted.

"Entrepreneurial activities," he asserts, are also a component of privatization, as institutions seek private sources of funds for research, for example (Rae 1996: 67). While it is true that institutions and faculty both expend greater resources securing replacement funds as a consequence of reductions in other forms of support, some of those sources of replacement funds are of public origin. While Britain in the decade of the 1980s instituted a reduction in the block grant, falling from 75 per cent of an institution's revenue to 55 per cent, there were substantial increases in special purpose – or ear-marked – public funds (Williams in Leslie and Slaughter 1997b: 104). The notion of marketization allows for a tendency for governments to use competitive market mechanisms as a way of allocating public funds, creating what Williams (1997) calls quasi-markets. Privatization as a conceptual framework is not broad enough to
account for the variety of developments taking place in university finance with respect to changes in the way, for instance, that public funds are allocated.

Of course, this is not to assert that balance of public and fund sources of financing is not relevant to determining the status of an institution, but it is not the only one. In his essay "‘Public’ and ‘private’: analysis amid ambiguity in higher education," Levy takes the four essential public-private criteria and for each provides sufficient evidence of their lack of reliability as criteria in and of themselves to determine 'publicness' or 'privateness': financial source, control, mission, and extant use (1986) (although a fifth one, the nature of the enabling document, should be added). For the purposes of this chapter, attention will be paid primarily to the combination of financial source and control.

Given the variety of ways in which governments of various levels support higher education in both the public and private sectors, the question of whether government is considered the major source of funds quickly makes it of little utility as an index of public or private status given the "complexity of this source" (Levy 1986: 174), and differs from one political jurisdiction to the next. In Canada and the United States, there is an historical split between the respective responsibilities of the federal and provincial governments for research, operating funding, and research overhead. In the US, where states provide operating funding for public universities, the federal government is a major provider of research funds to all American universities, and while such funds are allocated on a competitive basis, the policy is essentially blind to the public-private distinction (ibid.). In practice, this translates into 50 per cent more funding for research programs in private universities on a per capita basis than public institutions.

With respect to student support, the U.S. federal government, through both grants and loans, paid (using 1993 figures throughout) approximately 25 per cent of the gross tuition at
private institutions of the "average" low-income student; for the same low-income student in the public sector, it pays 60 per cent of gross tuition (McPherson and Schapiro 1998: 32). Because tuition fees remain substantially lower in the public sector, these percentages belie the degree of the subsidy federal student aid provides to the private sector: the same average lower-income student in the private sector receives federal subsidies totalling $2,769; in the public sector, $2,520.

This has lead Shils (1973) to argue that the type of funding most relevant to the distinction between public and private in the United States is the presence or absence of state (or regional) contributions. However, it becomes clear early on in this discussion that the presence or absence of public funding to denote public or private status is insufficient without looking simply at the level of government support, but the type of government support.

Further,

If the trend established by the US Educational Amendments Act of 1972 continues, then government grants to students rather than institutions will, on the one hand, strengthen the “market” by allowing students to choose institutions, but, on the other, will increasingly subsidize the private sector by removing a major obstacle of student choice of private institutions (Levy 1986: 175, italics in original).

The specific source of funds must also be examined in connection with the nature of the control and the degree to which those funds carry specific conditions: Federal funding for research and student aid are connected with some types of regulation and control, while institutional grants from the regional or state governments carry others, though in most jurisdictions block grant funding forms predominate. Source of funds and control thus become inseparable.

With respect to funds of a private origin, one of the most obvious indices of 'privateness' in many jurisdictions (including the United States and Japan) is the importance of tuition revenue,
particularly in mass private systems (Geiger 1986: 15). When one looks beyond the United States, “getting better means getting bigger” (ibid.). Tuition fees play a major role in expanding capacity, “soaking up” the demand not met by public institutions.

It is even more difficult to gauge the relative public or private status of an institution when one looks to the Caribbean and Latin America. Levy notes that many Latin American universities during the decade of the 1980s – including those in Mexico, Venezuela, Brazil and Uruguay – were considered private in all senses except control: they received substantial funds from the state (indeed the state was the exclusive provider of funds), though universities were bound to virtually no formal reporting or accountability regimes (ibid. 176).

In Ontario, the dimensions of “publicness” are best understood with reference to the levels of public support, and nature of control and regulation, the nature of the institutions’ enabling documents, and as we will see later, perhaps even notions of relative quality of the programs offered by public institutions. It is through these facets of public status that lend themselves to understanding the nature and status of Ontario universities.

There are no significant private research intensive universities in Ontario, and until recently public institutions received the bulk of their operating funds from the provincial government. In fact, until the middle of the 1990s, 90 per cent of the budgets of both the community colleges and universities were either provided or controlled by the provincial government. In Ontario as of the year 1985-1986, provincial grants amounted to $1.7 billion out of total operating income of $2.2 billion (or 77 per cent), distributed predominantly through an enrolment based funding formula. In 1995-1996, the government provided $1.9 billion in operating income out of a total of $2.7 billion (or 70 per cent). However, universities are legally independent institutions that make up the broader public sector called the MUSH sector –
denoting municipalities, universities, schools and hospitals – and as such, are private insofar as they exist by virtue of an act or charter. The Degree Granting Act of 1983 established that the provincial legislature has the monopoly on extending the right of institutions to grant degrees and determining whether or not an institution may call itself a “university.” The Act does not prohibit the establishment of degree-granting institutions, however it has been the policy of the government of Ontario since the 1960s not to do so (this has changed recently with the passing of Bill 132, which is discussed further in the thesis). With the exception of two examples, the government has normally felt that institutions wishing to get into the business of granting degrees – particularly in the arts and science – should seek agreements with institutions already empowered to do so (Smith Report 1997). The two exceptions noted above were Nippissing College, which became a university in 1992, and Ryerson Polytechnical Institute, which became one in 1993.

In recent years, declines in government contributions have led universities to refer to themselves as “publicly assisted” instead of “publicly funded.” A variety of other terms are used as well. Policy documents published in 1990 by the now defunct Ontario Council on University Affairs, an intermediary body that provided advice to the Minister of Colleges and Universities (now the Minister of Training, Colleges and Universities), offers some relevant definitions of public and private in the Ontario context. The definitions found in this document were part of a the effort on the part of OCUA to provide the Minister of Colleges and Universities with advice on the conditions the council thought should be applied to the founding of new, “private” degree-granting institutions in Ontario. The document conceived the balance between finance and control – and subsequently the line that divides public and private – as thus:

... it was decided as part of the effort to ‘modernize’ Ontario during its quiet revolution, that university education should become a public responsibility, that but that services would be
provided through private, incorporated, locally organized institutions with full academic autonomy (OCUA Advisory Memorandum 90-VI).

And, in defining a “provincially assisted university,”

Reference to “provincially assisted universities” in this document refers to the existing institutions of postsecondary education in Ontario with Royal Charters or with acts of incorporation that deem them to be universities. These institutions are all private institutions in law and are self-governing, and therefore autonomous. The provincial government provides the bulk of these institutions’ capital and operating revenues (243-244; emphasis in the original).

Further, the document argues that a ‘tacit’ agreement was struck between the state and universities. In return for the high degree of government support, universities were required to remain responsive to the needs of the society and economy in which in they were located. Moreover, through developments in public policy concerning universities,

governments effectively controlled fee levels in the interest of maintaining access; restricted program funding, especially in the graduate, professional and semi-professional areas; empowered these institutions, and these alone, to grant ‘any and all degrees.’ During the last generation, Ontario therefore acquired a public university system in name only” (OCUA 1990-VI: 243-244).

The other reliable source for defining the difference between private and public in the Ontario context is the Smith Report, or “Excellence, Accessibility and Accountability: The Report of the Advisory Committee on Future Directions in Postsecondary Education.” The committee, struck in 1995, was charged with recommending appropriate changes in the balance of private and public financing; possible collaboration between universities and colleges; and to propose solutions for meeting the expectant surge in demand for post-secondary education.

Consistent with the framework provided by the government, the advisory panel advised that there was a “limited role” for the establishment of private universities, which they defined as
those which were simply ineligible for government operating and capital support. However, the panel reported that a number of concerns were expressed during its consultations in the event the government opted to allow such institutions to be established. The concerns were threefold: 1) that such institutions provide for governance arrangements that would foster autonomy and academic freedom; 2) that such institutions be subjected to various internal and external mechanisms for quality assessment and control; and 3) that the appropriate financial controls be established which would protect students in the event that the institutions closed due to financial exigency (Smith Report, p. 57-59). However, the panel did recommend that students in the non-profit “private” university sector be treated the same as those in the private vocational sector for the purposes of receiving government student assistance (p. 60).

Other Ontario policy documents contain assumptions about the quality of institutions that operate outside the Ontario system of publicly funded institutions, mostly those with “head quarters” in the United States. Policy documents generated by OCUA in 1983 in the form of recommendations to the provincial government concerning a review of the policy on ministerial consent reveal a concern regarding the absence of any mechanisms for evaluating the quality of the program offered. These recommendations refer to Ontario’s protocol – as stipulated in the Degree Granting Act, 1978 – for approving the request that institutions residing outside the province be permitted to operate degree programs. As the document notes, the ministerial consent criteria are: 1) status in the home jurisdiction; 2) accreditation, where applicable; 3) societal need and student demand; and 4) adequacy of on-site facilities and library services (OUCA 1978 VI: 75). The council expressed concern that the use of local standards (local to the mechanisms of the applicant’s jurisdiction) of quality assessment in the granting of ministerial consent was inadequate, and that “the comparable academic standards be met by all non-
Canadian institutions requesting ministerial consent pursuant to the degree-granting act” (OUCA 1978 VI: 78).

Thus the current, extant use of “public” in the Ontario context appears to be animated by a combination of the following criteria:

1) The source of funds;
2) The nature of government regulation and control;
3) The nature of degree-granting rights and monopoly held by government embodied in the Degree Granting Act;
4) Difference in product represented in quality control mechanisms.

This exercise is intended to be a first step toward definitional clarity with respect to the notions of marketization, privatization, the private and the public. It can never be a conclusive or exhaustive study of the various manifestations of publicness or privateness, as these definitions and manifestations are highly contingent upon the political cultures from and in which they are derived.

The discussion so far has aimed to provide is a broad sense of marketization and how it is enacted in public systems, without substantively changing a public system into a private one. The assertion that a “shift in the balance of finance or control from public to private” (Rae 1997: 63) constitutes privatization accounts for the ways in which governments reinvent mechanisms of control beside an increase in the role of private sources of finance. Viewing public policy changes as they have been described above through the lens of marketization leaves questions of level of government support largely aside; rather, it focuses on the mechanisms that are used to disburse funds.
To revisit, for example, early analyses of changes to federal student aid policies in the United States, governments were not necessarily intent on scaling back funding to post-secondary— even if indeed this took place at the state level necessitated by those federal changes— but rather to reorganize the manner in which federal funding was allocated. This was done in order to achieve the conditions of a more perfect market. This 'more perfect market' was made up of private and public sectors, in which new student aid policies were seen to create a more level playing field, and to remove or at least lessen the barriers to the private sector. In this case, this highly subsidized higher education market was, through policy, one characterized by greater choice, a hallmark of the market paradigm.
Chapter IV

The development of ‘public’ universities in Ontario

This chapter examines the circumstances of the establishment of King’s Colleges at York and Windsor (Nova Scotia), as well as the University of Manitoba, in order to glean a sense of the development of the notions of ‘public,’ and conversely, ‘private,’ in the Canadian context. In modern terms, our notions of what constitute the two ‘sectors’ are informed in part by the dichotomies of sectarian versus secular; publicly supported versus non-publicly supported; and private versus public boards and government-involved governance arrangements. However, such dichotomies were of little use in the 19th century. In the early development of Kings’ Colleges at York and Windsor, as well as the University of Manitoba, the indices of ‘public’ status versus private status co-existed in institutions in varying degrees and at varying times. For example, religious affiliation or religious teachings did not preclude or collide necessarily with a college’s public status. It became, rather, a question of what arrangements could be made to accommodate all denominational communities in the colony. Ultimately, the notion of federation – a coming together of various institutions under the umbrella of a degree-granting institution – provided a particularly Canadian solution to the question of accommodating religious diversity and preserving a sense of public ownership or public status. The history of King’s College and the University of Toronto and its relationship with the established church reveal much about early assumptions concerning its status, as well as over competing visions of what constituted ‘public,’ which implicated governance, finance and curriculum arrangements. This chapter also provides a somewhat more detailed account of the beginnings of the University of Toronto.
In the early years of King’s Colleges at both York and Windsor, political conflict arose from a lack of consensus regarding the manner in which these universities should incorporate both liberal arts and moral and religious education, and the degree to which they were to be tied to the established church: these early moments are necessary to understand what gave rise to what Cameron termed the “banner year” for university charters.

On the one hand were those, mostly Anglican and Tory, who saw control by the official Anglican church as a mark of loyalty to the crown and true religion. On the other hand was the great majority of people, Roman Catholic and Protestant alike, who were excluded from the Anglican college. This issue would be resolved differently in each province and the manner of its resolution would do much to determine the future structure of higher education in Canada (1991: 8).

In her unpublished doctoral dissertation, Pearce (1999) asserts that the arrangements for King’s College and later the University of Toronto in many ways suffered from the competing visions represented in three men, each representing views espousing a greater or lesser degree of involvement with the established church: John Strachan, Robert Baldwin and Francis Hincks. These models or philosophies emerged during the period of 1827 to 1852, beginning with the original Royal Charter of 1827 and the efforts of John Strachan; to the amendment of the Charter and its vision espoused by Robert Baldwin; to what Pearce terms the “compromise” solution under the leadership of Francis Hincks, who found what he considered a workable model for the University of Toronto in the University of London.
Although the need for a university in Upper Canada was raised originally in the late 1700s by John Graves Simcoe ... it was not until 1827 that a royal charter was issued for King’s College at York. Over the next 26 years, religious leaders, politicians, residents, and no fewer than eight Lieutenant-Governors and Governors played various roles in the drama. At least ten proposals for legislation, some consisting of as many as three separate bills, were put forward, and three acts were passed to amend the original charter for King’s College (Pearce 1999: 2).

King’s College, Windsor, was the first institution in the Canadian colonies granted permission by the British Crown to grant degrees, which obtained its charter in 1789. The founding of King’s College in was in fact the offspring of King’s College at New York City (later to become Columbia University). King’s College, New York, was envisioned as an institution embodying the principles of the Empire, liberal education and moral and religious instruction. These principles were imported with the many Loyalists who fled the United States after the American Revolution and settled in the Canadian colonies. Charles Inglis, one of the founders of King’s College at New York (and temporary acting president) was one such Loyalist, was in 1787 named the first Anglican bishop of Nova Scotia. Later that year he obtained funds from the local government for the establishment of a residential academy, or grammar school, in Nova Scotia. King’s College was established by Royal Charter in 1789 with assured funding of £400 annually. A Royal Charter was obtained in 1802, and with it an additional £1,000 annual grant from the British government.

Though it was not articulated in the Charter itself, the governors of the College stipulated that, in addition to its faculty, President and Chancellor, students had to take an oath of allegiance to the Thirty-nine Articles of the Church of England (despite the opposition of Charles Inglis), called a “confessional,” upon commencing their studies. Moreover, all enrolled students of the college were prohibited from attending “a Romish mass, or the meeting houses of Presbyterians,
Baptists or Methodists, or the conventicles or places of worship of any other dissenters of the Church of England” (Cameron 1991: 7).

Generally speaking, the colonial office in London remained for some time fairly disinterested in the need to establish a university in the Canadian colonies. Thus their establishment depended on the efforts of individual men, who held particular views on what values a colonial, Anglo-Saxon university ought to embody.

In the cases of all three institutions, we may see this struggle and the individuals most identified with them as focusing mainly on the nature and degree of institutional affiliation with the established church – the Church of England. Therefore, initially at least, ‘public’ status was derived in part from affiliation with the established church. Pursuing an alternative vision of church and university and in turn ‘public’ higher education, Lord Dalhousie, newly appointed lieutenant-governor of Nova Scotia, petitioned the Archbishop of Canterbury to remove the oath from the requirements of admission to King’s College Windsor. These changes – altering the Charter – had to be made through appeal to the Archbishop.

Having had his petition rejected, Dalhousie went to work – fairly quickly and successfully – to establish a new institution that more fully embodied his vision of a university. The lieutenant-governor was heavily influenced by the universities of Scotland, which embraced a more liberal, open admissions policy and required no membership in a particular faith. This is not to say that Godless atheists would be welcomed, but rather;

... its doors will be open to all who profess the Christian religion; to the youth of His Majesty’s North American Colonies, to strangers residing here to gentlemen of the military as well as the learned professions, to all, in short, who may be disposed to devote a small part of their time to study (Cameron 1991:8).
In 1798, Upper Canada’s Executive Council set aside 550,000 acres of Crown land for the purposes of establishing a university, deemed necessary by many local elites in the colony. However, due to a combination of ambivalence on the part of the colonial office and local authorities in Upper Canada, there was no movement on the issue until 1827, until John Strachan was sent to London to obtain a charter for the new university. He returned from London with a notional agreement on the contours of such a charter, which received royal ascent in 1827. (According to Cameron, the wording and arrangements of this charter were copied for both the College of New Brunswick and King’s College, New Brunswick, which received a land grant of 6,000 acres and restricted enrolment to Anglicans.)

Similar to the uneasiness with the requirements of religious affiliation in statutes of King’s College in Nova Scotia, King’s College, York was mired in conflict for some 23 years after having received its first charter. This controversy, according to Pearce, arose in part to the wording regarding religious instruction in a document from the Duke of Portland, Colonial Secretary, to the local authorities. The document expressed the British government’s recognition of the importance of establishing a number of educational institutions in Upper Canada that provided religious and moral instruction.

In the furtherance of so important an object as the instruction of youth and to assist and encourage the exertions of the province in laying the foundation for promoting sound learning and a religious education, His Majesty has condescended to express his gracious intention to comply with the wishes of the Legislature of Upper Canada... [to establish] free grammar schools ... and in due course [establish] other seminaries of a larger and more comprehensive nature, for the promotion of religious and moral learning, and the study of the Arts and Sciences (Pearce 1999: 32).
In keeping with the spirit of the dispatch, the original Charter of 1827 required that all those affiliated with the university (with the exception of students) swear allegiance to the Thirty-nine Articles of the Church of England:

And We do hereby declare, ordain and grant, that there shall be within our aid College or Corporation, a Council, to be called and known by the name of "the College Council"; and we do will and ordain that the said Council shall consist of the Chancellor and President for the time being, and of seven of the Professors in arts and faculties of said College; and that such seven professors shall be members of Established United Church of England and Ireland; and shall ... severally and subscribe to the Thirty-nine Articles of Religion and set forth in the Book of Common Prayer... (Charter of the University of King's College at York in Upper Canada, p. 11).

Concluding a period of intense debate, acrimony and political deadlock over the nature of the ties of the institution with the established church, an election in the legislature in 1837 allowed a majority to amend the charter to further weaken the links between the church and the institution. This amendment consisted of three major changes in this respect: it removed the swearing of the oath to the Thirty-nine Articles; it no longer required the President of the institution to have any formal affiliation with the Church of England; and further, the amendment replaced the Archbishop of Quebec (in the role of Visitor) with the judges of the court of King's Bench (Wallace 1927: 30). The amendments were made in order to satisfy the objections of several camps: Those who felt the strong affiliation with the established Church discriminated against those who subscribed to other religious denominations, and those who objected to the marriage of 'religion and university' altogether.

Further conflict arose, however, from those quarters which felt that the new Act was not in keeping with the spirit of Portland's dispatch in establishing an institution that combined both liberal studies and religious and moral instruction. The 'father' of the original charter himself, John Strachan, wrote in a rather lengthy letter of his dissatisfaction with the amendments to the
Charter to the newly appointed Chancellor in 1842, Sir Charles Bagot (from Hodgins' *Historical and Other Papers, 1792-1853*, p. 200). In addition to providing the new Chancellor with a history of the founding of the institution, he wrote of the failure of the amended Charter of King's College to retain a more formal association with the Church of England. For this, he placed blame squarely on the efforts of the "adherents to the Church of Scotland" and "warmly supported in it by large bodies of the Methodist Society" who agitated for the 1837 changes (ibid.). His detailed objections in the 1842 letter to the new Chancellor are worthy of the full reproduction below:

I take the liberty of enclosing to Your Excellency a copy of [the Charter] as it originally issued; and Your Excellency, on perusing it, will find that, while it is clearly and properly intended that the University should be a Body in connection with the Church of England, yet no Test whatsoever was to be required of Teachers, or Scholars, with the single exception, obviously unavoidable, that graduates in Divinity must subscribe to the Articles of the Church of England, and that the Archdeacon of York was to be President of the Institution. The other Professors might have been Members of any Religious Community whatsoever, and so might those whom the Institution was the receive and instruct (Hodgins 1911; 203).

Stachan's letter was perhaps one of his last attempts to "salvage" King's College from the atheists. It was unsuccessful: A later Act of 1850, which established the University of Toronto, removed any last traces of denominational affiliation.

In response to the Act which created the University of Toronto (what Strachan termed the "Godless university"), Strachan himself sought and received a Charter to establish Trinity College in 1851. A further Act in 1853 established University College, created as the instructional arm to the University of Toronto's degree granting and examination functions. By this time there was one student remaining at the University of Toronto by the name of Adam Crooks, who became the first Minister of Education in Ontario (Wallace 1953). With the creation of the University of

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Trinity College in 1853, the old King's College had in fact lost many of its supporters – and its students – to Trinity.

The initial arrangements for King's College, Windsor, and King's College, York, were not found acceptable by any party, though for somewhat different reasons. Initially, the charter for the Windsor institution itself outlined no requirements for its students and faculty with respect to religious affiliation. However, its board did pass regulations which required taking an oath to the Thirty-nine Articles of the Church of England, and its founding document did stipulate a relationship to the established church through its board or council make-up. With respect to King’s College, York, taking the oath was required of its professors and faculty, which was then removed with an amendment to the Charter. Both of these arrangements satisfied no one, and in both cases the personalities associated most strongly with the institutions sought additional arrangements with the intention of establishing other institutions.

In the case of King’s College, York, an early colonial office dispatch gave rise, in part, to competing visions and denominational struggles, and created the conditions for the establishment of both University College and the University of Trinity College. In Nova Scotia, religious and denominational "diversity" in the province's population made its Anglican character and the consequent exclusivity politically unsustainable. Had these institutions been regarded as somehow 'non-public' or private, this would not have been a concern.

How does this implicate questions of status, of public status? Those who advocated strong ties between the university and the church felt this strengthened the spirit of the public ownership of these institutions. On the other hand, critics of church control or even at least strong denominational connection, predicated their objections on the grounds that requiring an oath –
either at matriculation or graduation – excluded much of the population of the communities in which they were located.

The denominational conflicts that played out over the course of the early history of the University of Toronto and other institutions are important in understanding future developments in Canadian higher education, which were concerned with the appropriate degree of affiliation with the establishment church. The religious and political wrangling over the nature and degree of these ties in many ways simply reflected the society in which these institutions were situated: Upper Canada was a place made up of many “publics” – Scottish Presbyterians, British Anglicans, Irish Catholics, Reformers, not to mention non-believers who were excluded in some cases from enrolling in, and graduating from, these institutions. With the legislation of 1850 providing for the creation of the University of Toronto and later its teaching arm University College, the Toronto ‘question’ was on its way to being solved, for it constructed a framework on which future arrangements would be based, in Ontario and beyond. It served to create a precedent for the affiliation of the sectarian colleges: the first denominational college to seek and succeed in reaching an affiliation agreement was St. Michael’s College, followed closely by Knox College and Wycliffe College in 1885 (Shook 1971). It also provided an example as to how to navigate sectarian waters to other provinces wishing to establish provincial universities along federative lines involving existing sectarian colleges.

Moreover, the relatively successful model provided by the University of London – mixed with the political wrangling and problems associated with the early University of Toronto as King’s College – influenced and gave rise to a second Canadian attempt at establishing a provincial university in Nov Scotia. The University of Halifax was created 1876 through provincial legislation, which would, like the University of Toronto, act as an examination body
and degree-granting institution to its affiliated institutions. The new institution had some financial leeway and stability in the form of a guaranteed grant. The affiliated institutions did not have their degree-granting power taken away, as this five-year time-frame was seen largely as an experiment to determine whether they could secure independent funding beyond the initial five years. If successful, the University of Halifax would become the “one university” of the province, as the University of Manitoba would be to its province. However, the University of Halifax, unlike the initial arrangements for the University of Manitoba, took on teaching functions, with the exception of theology.

But idea of the Halifax institution, however, did not materialize. The University of Halifax bill was defeated by a “bizarre twist of partisan politics” (Cameron 1991: 20). The colleges lost their funding, but the University of Halifax remained – in legal name only – until 1963. As a result, various of the colleges which were to be associated with the federated institution closed due to the unsustainable funding conditions, with the exception of Dalhousie College.

The experiment in the form of King’s College, York, led to several outcomes in the development of Canadian higher education. In the case of Ontario, for example. 1852 – two years after the “de-denominalization” of King’s College, now the University of Toronto¹ – saw a flurry of charters – but no funding – granted to church-affiliated institutions. Secondly, the federation model – found in the Federation Act of 1887, codified in the 1901 Act but having been hinted at

¹ By 1901, the governance arrangements for the University of Toronto were quite complex. Reflecting the shift from away from any Anglican control of the institution, the Senate of the university consisted of the minister of education and nine other government appointees, representatives from the affiliated colleges, as well as alumni, with final authority resting with the provincial government. The Act of 1906 created a board of directors with authority over financial matters and removed direct government authority. The gulf between the two bodies would be addressed three-quarters of a century later, in 1971.
in the 1850 legislation – provided a model for future attempts in other provinces to establish universities:

... the university was forced to undertake instruction in the widening fields of secular knowledge and to seek extensive aid from the Provincial Government, itself the non-denominational agency of a mixed society. It was in consequence faced with a challenge to the initial assumption of the practical compatibility of secular knowledge and religious profession. Those who governed the university in the critical years after 1900 failed to solve the constitutional problem so raised, being themselves at cross purposes, though the resolution of the difficulty seemed to lie readily to hand in the constitution of the University of Toronto [of 1906] (Morton 1957: 9).

The development of higher education in Manitoba might repeat, as the population of the province grew and the various denominations strengthened, the denominational conflict over higher education which the Province of Ontario had known.

It was fear of such a conflict which inspired the foundation of the University of Manitoba (Morton 1957: 21).

The following section deals with the circumstances under which the Roman Catholic College of St. Michael's University was established, as well as its eventual affiliation with the University of Toronto, which was formalized in 1881. This is a rather interesting period, for the College had, on the surface, had rather ambivalent feelings about affiliation with the larger, secular University of Toronto. On the one hand, affiliation held some promise (or hope) of financial support: on the other, retaining some measure of autonomy – or private status – was regarded as necessary in order to protect the moral and religious teaching of the Roman Catholic college.

When it was founded in 1852, St. Michael's College was originally one of two educational institutions established by the Basilians in Toronto, though it was soon merged with St. Mary's Little Seminary. The long-term plan was to have St. Mary's serve at the post-secondary level, while St. Michael's would provide religious education at the primary level.
Financial struggles caused officials as early as 1853 to contemplate merging the institutions: the two had 29 students between them, most of whom could not afford to pay the fees. They in fact did merge early that year.

During these early years St. Michael's College remained largely a high school, offering a business program for the younger boys, and a philosophy program for the older ones, many of whom doubled as teaching assistants to their juniors. The relationship with the University of Toronto was friendly but largely non-existent. Though respected by the University of Toronto president, he nonetheless thought it a shame that the superior of St. Michael's College, Mathieu Soulerin, "had not a more progressive religion" (ibid. 137).

In terms of operating support, the college derived its income from grants from the Basilians in France with a small sum from the government. When it came to capital costs, however, the construction of buildings was financed largely through fund-raising drives conducted in the parishes of southern and central Ontario. (In 1868, the very small government operating grant was discontinued, which until then was supplemented by small sums charged for tuition, room and board. St. Michael's College seemed perpetually on the verge of financial insolvency.)

The Baldwin Act of 1849 that created the University of Toronto and stripped the institution of any denominational character was in fact supported by the Basilians, while the Protestants denounced it. However, the Basilians, particularly the bishop of Toronto, De Charbonnel, saw the framework of affiliation with a non-sectarian institution suited his vision of creating a place at the University for Catholics. A Toronto Mirror article in January, 1851, quoted De Charbonnel as saying that "in his opinion [the elements of the University Act] are fully calculated to meet the wishes and expectations of the whole community of Upper Canada; and
announcing his intention on behalf of his people, to become affiliated with the university, charging himself with their religious instruction" (Shook 1971: 135).

At first, the affiliation arrangement was seen as an opportunity to access a portion of the endowment established for King’s College that at that point supported the University of Toronto and University College, with the remaining portion of the endowment was distributed to the affiliated colleges. This arrangement was regarded as an opportunity to qualify for provincial assistance: Soulerin, St. Michael’s College superior and a professor of natural philosophy, logic and chemistry, was absolutely clear in demonstrating the aims of the college: “If the conditions attached to affiliation are suitable, we shall be in line for help just as are the Protestant colleges. This is what we are asking for in our petition” (ibid.).

The petition was rejected by the University of Toronto, but the college was eligible for incorporation, which it received in 1854. The College was governed by the superior, a collegium, the professors and other members of the college, though it was not recognized as a “university” per se. And the financial precariousness of the college was somewhat exacerbated when one Basilian father, Joseph Malbos, ‘defected’ to a Jesuit college. This defection angered the bishop of Toronto, an officer of the College, and raised the ire of a large donor, thus endangering the status of future gifts.

Although no church-related institution had taken advantage of the potential to affiliate – a framework set out in the University College Act of 1853, in which the University of Toronto was a governing and examining body with teaching carried out by the affiliated University College – St. Michael’s was the first to do so in 1881. Its affiliation was recommended by a committee that year under the following conditions:
1) St. Michael’s College is to be a college in affiliation with the University of Toronto; 2) In the sub-department of History (Medieval and Modern) no authors are to be specified in the University Curriculum. The periods of history embraced in the University Curriculum are to be the subjects of examination without necessary reference to any particular authors, and examiners are to be instructed by the Senate to so conduct examinations as to carry out the spirit of this memorandum. 3) In the Department of Mental and Moral Science and Civil Polity no authors are to be specified in the University Curriculum. The Questions will have no necessary reference to any one author or school of authors. In matters of opinion answers will be judged according to their accuracy and thought and expression.

These conditions of affiliation were modelled largely on conditions governing the relationship between Catholic and Irish institutions and their non-sectarian parent body at the University of London (Wallace 1927: 241). The effort was championed by John Read Teefy, a graduate of St. Michael’s, the University of Toronto, and at that time an instructor at St. Michael’s. Other church colleges followed suit: Knox College and Wycliffe College, both in 1885, and started a trend that in many respects culminated in the Federation Act of 1887.

This affiliation agreement was for many years unique at the University of Toronto. The memorandum provided for the full access of St. Michael’s students to University College lectures and the laboratories. Its philosophy course work differed from that of the University’s; it still had its hand in pre-university education and offered instruction in commercial studies. Only in 1910 did the Senate recognize it as being an arts college as were the others, such as University College and Victoria College.

Despite the formal relationship between St. Michael’s College and the University of Toronto, some tension over curriculum issues arose during these two decades following affiliation. This tension arose from the potential for the Catholic students’ ability to take history
courses at University College, as indicated in a letter from the Archbishop to the College
superior:

We learn with sorrow and dismay that the lectures on metaphysics given at present at University
College are highly tinged with skepticism. When Baine is taken as a basis for the nature of the
soul and Kant is given in the study of thought — while the standard of the morals is the general
good, we deem such metaphysics as calculated to undermine and eventually destroy the principles
of Christianity itself (Shook 1971: 145).

In 1889, two different examinations were set respecting the two different schools of philosophy
taught at St. Michael's and University College.

Though St. Michael's College was never itself a recipient of government revenue, it was
clear that federation with the University of Toronto was perceived by its early founders as a
vehicle for obtaining such support. The lack of access to public money — for the time being,
anyway — was further closed off when, following Confederation in 1867, sectarian colleges were
no longer eligible for support from the provincial government (Jones 1996).

Like other institutions in its position, the College turned to its alumni in helping raise
funds, in addition to the revenue it received from tuition and the financial support responsibilities
assumed by the Basilians (Shook 1971: 167). Funding for the original building of St. Michael's
had been supplemented by the collection of donations through the parishes of Ontario, and in
1878, St. Michael's organized its first official alumni gathering, with more serious fund raising
and alumni activity beginning in 1900 (ibid.). (A 1903 meeting of alumni, according to Shook
[1971], was attended by a rather large crowd of 300.) The College alumni, acting in much the
same capacity as modern-day volunteer fund raisers, were to become active in helping raise
money among non-alumni, considering the role St. Michael’s was increasingly playing in the Catholic life of Toronto and the generally modest means of most of its alumni – priests.

On the whole, however, the relationship between St. Michael’s College and the University of Toronto was no more troubled than the University’s with other colleges. As the University respected the relative autonomy and different pedagogical ambitions of the Catholic college, it in many ways retained the respect of Toronto’s Catholic community, though the institution was regarded with some suspicion by Protestants and the tension between University College and Trinity College continued to brew (Wallace 1927). For the most part, however, the more formal relationship with the university provided greater stability to St. Michael’s, while its affiliation agreement provided protection for its particular brand of curriculum.

The founding of the University of Manitoba was strongly influenced by the example of Ontario in so far as the initial ‘U of T problem’ and its subsequent solutions provided some instruction. The architects of the ‘Manitoba solution’ regarded the example of the University of Toronto as something to avoid: the challenge was how to unite the interests and confidence of the sectarian colleges in the quest for the establishment of a university in the province. The University of Toronto learned the hard way how best to manage competing sectarian interests, and in the case of the provincial, or public university, how to satisfy the public’s concern about the balance of power held by one denomination over another. Of course, the problems facing Manitoba differed given its different stage of development, and that the university was to be created out of a federation of existing denominational colleges. However, the U of T experiment was still instructive for the lessons it provided regarding how to balance the interests of sectarian autonomy in a federated arrangement, while retaining its sense of a ‘public’ institution accessible (in theory) to all.
The University of Manitoba had a monopoly on granting degrees through affiliated colleges, and was led by the Chancellor appointed by the government with a council made up of representatives of the colleges (Cameron 1991: 21). However, substantial differences in the French and English versions of the Act that created the University led to some confusion over its organization and functions (Harris 1976: 114). The bill introduced in the legislature by Attorney General Joseph Royal declared it was the intention of the government to "establish one university for the whole of Manitoba" (Morton 1957: 2).

The preamble also made a gesture to emulating the University of London model, which itself was a non-instructional umbrella for the affiliated colleges that offered courses. Further sections of the Act stipulated that there would be no professors. Though Jones cites London as a model for the framework of the one university of Manitoba (Jones 1996: 344), a series of amendments were introduced to modify the original Act, including the removal of the reference to the University of London, and the addition of the words "at present" at the end of the reference to instructors. Neither the actual printed copies in either English and French, however, reflected the revisions, though they went unchanged and unnoticed for almost 10 years, until 1889. Initially, the university collected a sum of $250 from the province, as well as fees from students to cover the cost of examinations, as well as revenue generated by marriage license fees (Cameron 1991: 22). Later, it received a land grant of 150,000 acres from the province.

The new institution included three colleges: the French Roman Catholic St. Boniface, St. John's (Anglican) and Manitoba, affiliated with the Presbyterian Church. In their early discussions concerning the establishment of a university in the province, the leaders of all three colleges expressed doubts about either the ability of Manitoba to sustain such an institution, or about their place in 'federation.' Bishop Robert Machray, chancellor of St. John's, approved of
the notion of a provincial or nondenominational university, but hoped his college would retain the right to confer degrees in divinity. Manitoba College, too, expressed approval of the idea of a university, but questioned its viability. However, these concerns were more easily dealt with than those held by the French Catholic College of St. Boniface. The college head Bishop Tache – the leader of the institution representing a cultural and linguistic minority – felt compelled to safeguard the autonomy of the St. Boniface under an affiliation arrangement with a provincial institution.

Early in its history, St. Boniface was run by various orders, though wound up in the hands of the Jesuits, and was based on the Jesuit college model of Quebec. Morton describes it as this way: “The curriculum was classical, the philosophy scholastic. The atmosphere of the college was devoutly Catholic, the spirit Quebec-French, pious, merry and vigorous… in which religion was at the centre of all education” (1957: 24).

In essence, it was a piece of French Canada in Manitoba, and thus its leaders were on guard against the potential for its being overwhelmed in a provincial university composed of two other non-Catholic institutions (the population of the province at this time was more or less half Anglo Protestants and half French Canadian Catholics). In the end, it was once again the influential (and seemingly viable) model of the University of London that persuaded the leaders of the Catholic college of the potential of a union with the other two colleges to form a university (Morton 1957: 23).

As mentioned above, the institution received a small annual sum of $250 beginning in 1877, which was increased three times over the next 12 years to a sum of $2,000. During this period the institution struggled, without buildings of its own, renting space from other organizations, though the affiliated colleges continued providing instruction in their previously
held buildings. However, in 1883, the university received a bequest of $83,000 from a British educator born in Manitoba, Alexander Kennedy Isbister, including a library collection. The sum was used to support the most promising students "without distinction of race, creed or sex" (ibid. 32). Further, the federal government increased its contributions to the province – which trickled down to the university – and gave the University a land grant of 150,000 acres in 1885. The proviso that accompanied the grant however, was that the gift was used in keeping with the Act and that that Act remained unmodified.

The next phase of the history of the institution was a 15-year process over which time the University became a teaching and instructional body with its own buildings and teaching staff. The growth and transformation was in part a result of the growth of the province, though this growth was largely in the Protestant and Anglophone portion of the population. This had implications for the French-Catholic St. Boniface, no longer a representative of an equal portion of the population:

The growth of an overwhelming English and Protestant majority meant that the official use of the French language and the continuance of denominational schools depended not so much on popular assent as on constitutional guarantees. More and more English and Protestant Manitobans were becoming impatient with the official use of French in a province in which the French had become a minority, and with the denominational school system in which the Protestant schools had in effect become "public" while the Catholic remained denominational (Morton 1957: 43).

These changing political and demographic factors directed attention and criticism at the structure of the University of Manitoba, in which teaching and the curriculum had remained in the hands of the sectarian colleges (ibid.). It is in this context of political change – and pressure to "modernize" and expand the range of courses and programs taught – that the University of Manitoba became "one university" in 1889. It was at this time when the differences between the
French and English versions of the Act were highlighted, and the removal of mention in the Act's preamble of the University of London model was necessary. St. Boniface was at the centre of the conflict, and when the council voted on the proposal to sell a portion of the university lands in order to finance and establish chairs in natural and life sciences and modern languages, all those who voted against were representatives of the Catholic college, which felt increasingly under attack as the new cultural and linguistic minority in the province. Their objection was that the university was about to hand over teaching duties to instructors who had no regard, it was assumed, for the spiritual and religious education of students (ibid.). Though it was in fact with the assistance of a large endowment in 1904 which enabled the university to hire professors (Jones 1996), though it was not used for such purposes for a number of years.

Generally, though, the University of Manitoba learned a great deal concerning what ingredients were required to forge a satisfactory, federative arrangement from the experiences of King's College and the University of Toronto (McNab 1925), and mirrored, more or less, the eventual arrangements which characterized the Federation Act of 1887 in Ontario:

The establishment of the University of Manitoba was an important landmark in the history of church colleges in Canada. It meant that the component colleges were able to continue the liberal arts course in a church atmosphere, while sharing in the benefits of membership in a larger body. The unique Canadian achievement in higher education, the working out of a relationship between church colleges and secular universities had begun (Cameron 1991: 22).

Chapter conclusion

Following the first royal charter granted King's College at York, politicians, believers and the general public at large were left to grapple with what was required of a public institution to be "public." Although the notion of a "provincial university" in Ontario was officially born later, there was no doubt a struggle over the relative ownership of the newly founded King's College at
York in its early years. The Anglican-Tory elite ruled a province where only a minority of the inhabitants of Upper Canada were Anglicans, circumstances which gave rise to fairly robust public objections over the degree to which this new “public” institution should be affiliated with the established church. This deadlock was partly broken in 1837 by the passing of the King’s College Charter Amendment Bill (the second attempt), which further weakened the ties between the Anglican church and the university. This in turn angered the Protestants community, particularly John Strachan, who petitioned in the subsequent decade to reverse this decision. The Amendment stated, among other changes, that:

[I]t shall not be necessary for any member of the College Council, or any professor to be at any time appointed, to be a member of the Church of England, or subscribe to any articles of religion other than a declaration that he believes in the authenticity and divine inspiration of the Old and New Testaments, and in the doctrine of the Trinity (McNab 1925: 44-45).

In addition to the anger generated among the Protestant community, McNab (1925) and Jones (1996) note, the University was still viewed with suspicion by other denominations, as the balance of power remained in the hands of Anglicans.

When the University was eventually secularized, reorganized and renamed in 1849 and the non-denominational University College was chartered in 1853, what followed was an explosion in the number of charters granted denominational colleges, particularly in the 1850s and 1860s. However, sectarian institutions were small and by themselves served relatively small numbers of the inhabitants, a contributing factor in their financial instability. St. Michael’s College saw the framework for affiliation as a benefit to its survival: it sought closer ties with the University of Toronto in an effort to secure public funds and a sense of security for its institution. Subsequent arrangements, which following the relative proliferation of sectarian colleges,
constituted a particularly Canadian answer to accommodating the many religious 'publics' within a larger framework.

What do these movements suggest about the sense of the development of the Canadian or Ontario notion of 'public' status? It is not surprising that while Protestant proponents of strong ties with the established church reacted negatively to the secularization of the University of Toronto, St. Michael's College felt its advantageous. For a non-establishment church unprotected by such status, membership within a larger, federated arrangement offered security, as well as the promise of fiscal support. St. Boniface, itself approached with the notion of joining forces with two other denominational colleges (both Protestant), was hesitant at first, but with a successful model at hand in the form of the University of London, the potential advantages were found to be compelling.

Clearly, in both cases, the Catholic colleges recognized the advantages and viability of formal association with public institutions (arising from some measure of financial stability and the right to grant degrees), and saw no contradiction in such an arrangement.

Preceding the University of Toronto's incorporation in 1906, the university had become somewhat of a theatre for political battles. Political interference from the province of Ontario, particularly the appointment of faculty by the province without the knowledge of the university's president resulted in the Royal Commission on the University of Toronto, which was to examine the issue of governance. Thus our sense of public status was further elaborated and refined, when the Royal Commission implicitly recognized that removing direct government control did not necessarily endanger the public status of an institution. The Commission noted:

The history of the Provincial University has demonstrated the disadvantage of direct political control. Despite the zealous efforts of statesmen and educationalists the University became on many occasions in times past the sport of acrimonious party disputes. Its interests were
inextricably confused in the popular mind with party politics, although in these it had, in reality, little concern... The fruits of this policy [of interference] have been a gradual decline of public sympathy with the pecuniary needs of the University, and an element of uncertainty and impotence in its internal management (University of Toronto Royal Commission 1906: xxi).

More specifically, the mandate of the commission was to examine what constituted an appropriate relationship between governments and publicly funded universities; and which type of internal governing structures would be appropriate to satisfy the requirements of institutional accountability (Jones 1996; Cameron 1991).

Two key recommendations emerged: that the university be incorporated as a corporate entity (in addition to the autonomy it derived from its charter), and that a bicameral system of governance be established. Under a bicameral arrangement, decision-making authority would be divided between a board of governors charged with overseeing the administrative affairs of the university and representing the interests of the provincial government, while academic matters would be the terrain of a largely faculty-dominated Senate. And though the focus of the Commission was the University of Toronto itself, and bicameral governance at Canadian universities pre-dated the Commission, the rationale for such arrangements was for the first time elaborated (Jones 1996). This Report was heavily influenced by the British tradition, wherein the autonomy of the older universities derived from their legal autonomy.

It was the arrangements of the 1906 University of Toronto Act that gave Ontario – and perhaps Canada on the whole – the most enduring and strongly developed notion of what is connoted in 'public' status. (No longer so directly creatures of the government but rather of the legislature, universities were granted autonomous status and the public interest was viewed as being represented by government appointees.)

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Drawing from the work of Seymour Lipset, Skolnik and Jones review the different political and historical bases in the development of the United States, and apply those assumptions to differences in the divergent arrangements in the area of university-state relations. With the American Revolution acting as the pivotal historical moment, the two countries developed along rather different lines:

The United States is a country of the revolution, Canada of the counter-revolution. These very different formative events set indelible marks on the two nations. One celebrates the overthrow of an oppressive state, the triumph of the people... The other commemorates a defeat and a long struggle to preserve a historical source of legitimacy; a government’s deriving its title-to-rule from a monarchy linked to a church establishment. Government power is feared in the south; uninhibited popular sovereignty has been a concern in the north (Skolnik and Jones 1992: 123).

Moreover, statements in the two nations’ founding documents are more telling in revealing the diverse aspirations of the two: the US Constitution avows to safeguard the “life, liberty and happiness” of its citizens, where the British North America Act aspires to provide “peace, order and good government” for its inhabitants (ibid.). In drawing the obvious distinctions between higher education in Canada and the United States, the authors note that Canada has no private university sector, nor does it have any private denominational university sector, unlike the predominance of such institutions in the United States (1992: 125).

In fact, early legal precedents established some element of protection of public universities against state encroachments. One early Supreme Court decision in the United States established a rather strong principle early on in the autonomy of institutions established through an act of the state legislature. The case of Dartmouth College in 1819 stipulated that states could not alter the governance arrangements of universities unilaterally, following New Hampshire’s
attempt to add more governors to the college's board (Hobbs 1978). Dartmouth College went its own way following the decision, receiving no more public operating support.

The strong element of the need for autonomy from the state, even protection from civil authority, is seen to pervade American culture in general and with respect to universities in particular. Canada developed no such deeply held suspicion about the potential threat of strong government. Nor did these struggles resemble so much the American concern with the separation of church and state *per se*, but rather that the state as steward recognize the validity and access of all denominations to the province’s public institutions.

Similar in many ways to its national and provincial political arrangements, it is possible to see the evolution of a very Canadian notion of federation with respect to university arrangements, clearly evident in the language of the University of Toronto Commission in 1906. Many were uneasy with the original ties between universities and the church, reflecting a sense that public institutions shouldn’t cater to only one portion of the population – Anglicans. However, when one examines the processes and motivations behind the move of Catholic colleges to either seek, or agree to, affiliation with a state-run institution, we are reminded of the broader Canadian experiment with federation – namely some measure of autonomy within a larger framework that provides stability – financial and otherwise. It appears that the residents of the future Ontario regarded a public, state-assisted institution that catered to various “publics” through its constituent parts was a fair compromise in the previously viewed exclusionary elements of the King’s College original charter – including Catholics.

Despite the legally autonomous status of Ontario universities which lay in the language of their original charters and later their Acts, the evolution of the province’s universities have been informed by an on-going sense of public ownership, in which Ontario’s various ‘publics’ – the
Anglicans, the Catholics and the Scottish Presbyterians, to name a few – fought or objected to exclusion from King's College at York. These early and rather contested years of King's College began with an Anglican-controlled institution, followed by its status as a secular, 'Godless' university in 1850. This secularization in part spurred the desire on the part of various religious denominations to establish their own higher learning organizations which combined both secular and religious instruction. Over the years, this diversity was brought together under the banner of the provincial university via federation. It is this notion that best captures Ontario's notion of 'public' status.

In the following chapter I turn to England, and outline the evolution of the primary funding mechanisms – mechanisms which gave that countries' universities their considerable discretion in their use of public funds, giving rise to their publicness in both form and substance. For obvious historical reasons, the status of universities in England resembled those of Upper Canada. British universities were autonomous institutions, which, over the course of the 20th century, became increasingly reliant on state-provided funds. Their autonomy was further provided for in the nature of their funding arrangements, which were dramatically altered with the election of the Progressive Conservative government under Margaret Thatcher in 1979.
Chapter V

History & finance policy change in English universities

The universities of the United Kingdom are commonly divided into two groups: the ‘older’ universities and the ‘newer’ universities, the latter comprised of polytechnics which gained university status under the Further and Higher Education Act of 1992. The older universities were established by Royal Charter or statute: the Privy Council advises the Crown on the approval of Orders in Council, which includes the granting of royal charters and the incorporation of universities. The category of older universities also includes a number of institutions founded in the 1950s and 1960s; the 'civic' universities which were founded by Royal Charter in major cities in the 19th and early 20th centuries; as well as the first colleges of the University of Wales in the same time frame. The oldest of the old include the well-known universities of Oxford and Cambridge, which were founded during the 12th and 13th centuries, and three Scottish universities – St. Andrews, Glasgow and Aberdeen – which were established in the 15th century.

Universities are by definition able to grant degrees. These institutions – both old and new – enrol between 4,000 students (University of Abertay Dundee) to 28,000 students (Manchester Metropolitan University). The University of London, including all its colleges and schools, enrol approximately 100,000 students. The distance-based learning institution, the Open University, enrols an even larger number. The university system includes one privately funded university – the University of Buckingham – which offers mostly business and management courses.

In terms of the current sources of support for universities in the United Kingdom on the whole, total revenue for higher education in the UK totalled approximately £11.1 billion in 1996-
97 ($24.42 billion Canadian). Approximately 63 per cent of the total is received from public sources. The four UK funding bodies – the Higher Education Funding Council for England (HEFCE), the Higher Education Funding Council for Wales (HEFCW), the Department of Education, Northern Ireland (DENI) and the Scottish Higher Education Funding Council (SHEFC) – provide the largest amounts. The funding bodies allocate most of their funds by separate formula for teaching and research.

The distribution of funding for teaching depends largely on the number of students and the subjects that an institution teaches. Nearly all funding for research, however, is related directly to measures of its quality and volume. Universities and colleges also generate funds from a number of private sources, such as sponsorship, fee-paying students, conferences and donations, and service provision. Income from overseas student fees, for example, was around £563 million ($1.24 billion Canadian) in 1996-97.

The four UK higher education funding bodies are funded by and responsible to the British Parliament. Their role includes:

1) allocating funds for teaching and research;
2) promoting high quality education and research;
3) advising Government on the needs of higher education;
4) providing information to students regarding the scope and nature of higher education available; and,
5) developing and gauging the outcomes of accountability in the use of public funds.

The total amount of money to be allocated is decided by the central government.

Guidance and priorities are given by the government but it is the sole responsibility of the funding
bodies to allocate money to specific institutions. The funding bodies operate at arm's length from parliament.

In terms of student enrolment, the period of the last 30 years has seen significant expansion. In the late 1960s, the higher education system enrolled 200,000 students, whereas today more than 1 million students are accommodated. Around 200,000 international students are registered in institutions in the United Kingdom, coming from approximately 180 countries and represent almost 11 per cent of the student population. Forty-four per cent of these students come from European Union countries.

The English system – a brief review of the channels of funding

Prior to the Education Reform Act of 1988, the system of higher education in England was composed of two sectors: the largely autonomous universities, which received the bulk of their funds from the central government allocated by the University Grants Committee; and the polytechnics, which were under the jurisdiction of local political authority and derived their income from local income taxes and national moneys allocated by the local education authorities (LEA) (Walford 1991). (Polytechnics were later funded through the National Advisory Board.) Additionally, several institutions stood outside the ‘binary’ system: the Open University and the University of Buckingham. For the purposes of this thesis, I will first outline the history and development of the University Grants Committee for its importance as the principle vehicle for allocating funds to universities. The UGC is examined for its association with what it came to represent in the way of accounting and accountability problems with respect to the use of funds in this sector. And finally, its abolition in 1989 is significant, for it accompanied other structural
changes and some key policy initiatives which served to change the British system of university finance and stimulated the introduction of quasi-markets.

The University Grants Committee, established in 1919 by the Treasury Department, was the main vehicle for the allocation of support to universities including operating and capital funds. It has been called “the most important step in the development of an internally consistent national policy for universities” (Berdahl 1959: 48). Its creation also served to formalize “the relationship between the three parties responsible for university provision in the United Kingdom” (Shinn 1986): the government, the universities and the council itself. The government – and not a department of education – identified the need for such a body, which would assist them in allocating funds earmarked for higher education in ways that benefited both the national interest as well as the fiscal needs of the university (Fulton 1991). It was also a finance vehicle that afforded institutions a high degree of autonomy from both the government and the market, due in part to the council’s reporting relationship to the Treasury, “which could not claim an intimate knowledge of higher education, nor expertise in, and experience of, its objectives and processes” (Shinn 1986: 44), and thus had less authority to intervene in the process and impose its own preferences.

The funds allocated through the committee were originally no more than 30 per cent on average of the university’s operating income (Shattuck 1994), but rose to 60 per cent after World War II to nearly 90 per cent up until the 1980s (Fulton 1991; Walford 1991). The committee had representatives of both academics and the British treasury. Situated between the universities and the government,

as the key component, buffer, catalyst, crutch or channel, came the UGC, to amass information, to disburse moneys, to make the one party acceptable to the other, to interpose an objective and
informed layer between the politician and academic, central government and local community, the state and the individual (Shinn 1986: 59).

The mandate of the UGC was twice broadened in the 1940s from its original terms 'to enquire into the financial needs of university education in the United Kingdom and to advise the Government as to the application of any grants that may be made by Parliament to meet them' (Shattock 1994: 2). In 1943, the mandate was elaborated to include the collection, examination and provision of information to the government concerning the functioning and needs of universities. One further addition was made in 1946, which was "to assist, in consultation with the universities and other bodies concerned, the preparation and execution of such plans for the development of the universities as may from time to time be required in order to ensure that they are fully adequate to national needs" (ibid. 3). Also during the 1940s the government added members, including practicing academics, which brought the average age of the committee to under 70 years for the first time (Berdahl 1959; Shattock 1994).

The role of the UGC was to expand and contract (though mostly to expand), and for the most part enjoyed the confidence of both the government and university administrators (Shattock 1994). However, as a sign of things to come, the UGC was very soon challenged for its inability to think 'outside the box,' to imagine radical reform to the higher education system (Shattock 1994: 4), an accusation from the then Master of Balliol College and friend of the Labour party. But repeated requests that the Conservative government create a Royal Commission on the future role of universities was dismissed by Prime Minister Winston Churchill, who expressed a satisfaction with the ways in which British universities have served the country. This notion, however, that the committee was too mired in the minutiae of the system, was to resurface with some regularity as years passed.
An additional criticism levelled against the University Grants Committee concerned the method by which it determined allocations to universities (Shattock 1994; Williams 1997). It had always been kept confidential in order, argued the UGC, to protect universities' autonomy, so that individual institutions did not manipulate its activities based on the council's criteria. But it was a 'black box' of a formula, reputedly either very complex – which would make the publication of criteria pointless – or so simple that it would reflect badly on the authenticity of the credentials and expertise of the committee (Shattock 1994). Though its secrecy posed relatively little problem in periods of expansion, it would when the committee presided over major selective cuts (Williams 1997).

Another lesser understood principle regarding allocation decisions concerned the manner in which University Grants Committee calculated the recurrent grant to universities to take into account other sources of income. Though the manner of calculation was not known in detail, what was known was that the grants committee would take income from other sources into account and deduct it in some proportion from the grant. This policy, introduced in the decade of the 1950s, was originally meant to address the uneven playing field between, on the one hand, between the older universities with their higher levels of endowment income, and the newer institutions (Williams 1997: 280). This served to function as a significant disincentive to seek other sources of income in the form of endowment and philanthropic contributions because the equivalent of the revenue from such external sources was in essence distributed to other universities. This practice would end, of course, with the significant changes made during the decade of the 1980s.

In the years prior to the 1960s, the committee worked with the government to 'selectively grow' various university programs by providing discretionary block grants. (This occurred
alongside the creation of the polytechnics in the mid-1960s, a lower cost venue for higher education albeit of a more technical nature.) Briefly, however, the UGC experimented with earmarked funding allocation. In the Education Act of 1944, the government expressed an intention to greatly increase the moneys available to universities, to expand the system to accommodate greater numbers of students, and to increase the universities’ role in educating professionals needed for such areas as medicine and dentistry, agricultural and veterinary science, the school system, the social sciences, Oriental and African studies, and other modern languages (Shattock 1994: 3). From 1947 to 1952, these program areas of studies received an earmarked 30 per cent of the funds allocated by the grants council, though by 1952 the nature of the funds were once again exclusively of the block grant, discretionary variety (Berdahl 1959). By and large, the UGC tried to strike a balance between shepherding and providing planning advice regarding the system on the whole, and violating the autonomy of individual institutions. They were mostly successful, for the universities of Britain in the post-war years were enjoyed a high degree of autonomy but were heavily reliant on government revenue for their operations.

The greatest period of expansion overseen by the University Grants Committee was between 1963 and 1967, when some polytechnics were granted university status and other institutions “pre-university status” called Colleges of Advanced Technology (Fulton 1991). According to the government, Britain was spending 88 per cent more on higher education than it was in 1962 (Shattock 1994: 6), due mainly to significant growth in student enrolment. During this expansionist period, the UGC was increasingly engaged in planning activity, and their reports were often made public prior to the time in which governments would choose the form of response to the grant committee’s advice (ibid.).
Despite this expansion, however, enrolment pressures exerted themselves on the all the institutions, most notably the older institutions, which resisted taking in greater numbers by increasing the minimum academic standards required for entry. The politicians and public alike reacted to this strategy, creating a political need to look beyond the UGC for new ideas regarding enrolment increases and system changes. The Robbins Committee was established to examine future directions for higher education, known best for what became the “Robbins Principle,” which recommended that “places in higher education should be provided for all those qualifying for entry who wanted them” (Fulton 1991: 591). As noted by Fulton, this principle evolved from several political concerns regarding access to the system. First, that access would have to be expanded in order to increase British competitiveness; and that expansion and access based more on merit would most likely encourage the participation of non-elites (ibid.). Student-led demand was to become a guiding planning principle in the years to come.

Another element to the Robbins Committee report highlighted a general uneasiness on the part of government and the UGC over the connection between graduate output of the universities and labour market planning. Initial recommendations concerning the ratio of science and arts students contained in the Robbins report suggested a ratio of 60 science graduates to 40 arts graduates, though the government and the University Grants Committee settled on figures of an equal ratio. The compliance of the UGC in settling on this ratio would provide additional examples to the council’s critics that it was unable to go ‘outside the box’ in the face of the need for radical change.

By 1977, however, the years of expansion and the relative consensus that was lent to such expansion were over (Fulton 1991), and the grants committee would from then on preside over almost exclusively and uninterruptedly a period of contraction. At this time their main job was to
target areas of university instruction for selective cuts. Prior to 1977, UGC allocation decisions were largely mechanistic. For example, when the government decided to reduce the postgraduate enrolment levels in 1972 to 60 per cent of that recommended by the UGC, the grants committee evenly distributed the reduction across institutions regardless of the institutions’ programs or quality.

 Shortly after the change in government in 1978, this general practice of allocating relatively small cuts evenly across the system changed, since the impending reductions in government support would be unprecedented in their size, and instructions would be issued that such cuts were to be distributed in along different lines. With the 17 per cent reduction introduced in 1981,

 it was left to the UGC to distribute the resources available, but it was made clear to the committee that it was to be selective and directive, and that there was going to be an increase in the proportion studying science, technology and engineering at the expense of students studying arts and social sciences. The UGC’s role changed from a ‘buffer’ to that of a ‘coupling’ between government and the universities (Walford 1991: 169).

Research Allocations – Lead up to the 1980s

 The University Grants Committee along with the five research councils funded the bulk of research done in all types of institutions, including the universities, the polytechnics and the independent research institutes. The UGC and the research councils were originally designed to be “parallel and independent,” collectively ensuring that research was sufficiently supported where ever it was carried out. For the universities, research was primarily funded out of the operating grant allocated upon recommendation by the UGC (approximately 50 per cent of the grant was intended for research support [Shattock 1994; Walford 1991]); the councils funded research carried out at the universities which were not on the UGC’s recurrent grant, and the
councils allocated research grants and contracts to the polytechnics and colleges controlled by the local education authorities. However, universities also had access to each of the granting councils to top up the "basic research floor" provided through the UGC grant (Shattock and Rigby 1983: 103).

The five granting councils include: Agricultural Research Council, Science Research Council, which was the largest in terms of budget, Medical Research Council, Natural Environment Research Council, and the Social Science Research Council, all co-ordinated by the Advisory Board for the Research Councils (ABRC). The largest of the councils was the SRC, which funded universities and polytechnics (Shattock 1994). The funds granted through the social science council went mainly to the universities, while those of the agricultural and natural science councils funded ventures primarily based at the institutions outside the UGC grants list. The medical research funds allocated went largely to special units within the universities.

Due to the partial function of the UGC recurrent grant to support the "basic floor" of universities' research functions, the amounts that in fact universities spent on research were difficult to determine, creating what Shattock and Rigby call a "general accounting problem of identifying research expenditure" (1983: 104). However, it was argued that a variety of research support activities beyond essential infrastructure support were by necessity also covered:

The extent of the research infrastructure to be supported from general universities funds is not always appreciated. It goes well beyond what is normally referred to as the 'well-found laboratory,' and includes a proportion of salaries of academic, technical, secretarial and administrative staff, of library costs, and of computing and other services, in addition to the equipment, recurrent, and maintenance costs more commonly associated with laboratories; there is also the cost of the accommodation itself. In the social sciences administrative costs, and those of secretarial assistance, are of particular significance (Merrison report cited in Shattock and Rigby 1983).
Moreover, external grants and contracts caused further accounting problems, underlining the insufficiency of financial support for research. Funding councils did not provide support for research overhead – presumed to be covered by the recurrent UGC grant – however, universities were unable to account for how much overhead costs were incurred in association with external research grants. As a result, the Committee of Vice-chancellors and Principals noted that, “each grant of this kind represents an earmarking or diversion of some of the university’s resources, and it is wise for the university to obtain, at least for a sample of cases, some appreciation of how large this diversion really is” (in Shattock and Rigby 1983: 105).

1980s – Significant change

This snapshot of the British system of allocating finances prior to 1979 demonstrates that a tremendous amount of discretion was apparent, one which granted universities – which were highly dependent on government subsidy – a fair bit of autonomy to spend its government support as it saw fit, within fairly basic parameters. But the growing preoccupation with the level of government spending and with developing greater accountability mechanisms with respect to spending would put an end to such discretion.

According to Salter and Tapper, the Thatcher government was deeply suspicious of the UGC and what it represented as a bureaucratic and professional body with vested interests (1994). They argue that a re-elected Labour party would have most likely saved the committee and revamped its planning functions, despite its somewhat beleaguered reputation. And though a Labour government may have inserted its own priorities into this revised planning function, it was inevitable that a Conservative government...

...strongly infused with the ideology that markets know best, would have reached the conclusion that the UGC needed to be replaced by a body apparently more in tune with its own thinking. The
UGC was an organisation that represented traditional university values... and it was widely regarded as a lobby on behalf of the university estate (Salter and Tapper 1994: 200).

The Thatcher government would inspire cost-cutting, tax-cutting trickle-down economic models around the developed world. Thatcher would turn her attention first to reducing government spending, and higher education would not be spared. In addition to privatizing gas, electricity and water services in the United Kingdom, public support for higher education would initially be reduced and allocated according to dramatically different principles in the years between 1979 and 1989.

A fair amount has been written of the move away from the academic oligarchy toward the market in relation to the changes introduced during this time frame. Market-like changes introduced were of a two-fold nature: "the selectivity in public funding, and expansion of other sources of funding" (Williams 1992: 66). According to Williams, the Thatcher government – accompanied by like-minded economists – were increasingly drawn to the “principal-agent” problem with respect to the allocation and distribution of funds to the social services sector. With respect to universities, this principal-agent perspective cast the discretion enjoyed by universities as a problem, insofar as the state had insufficient levers at its disposal to ensure the funds were being used in ways it saw fit. Thus, to the government, the question that was posed was, how does a principal get an agent to do what it wants it to do? Given the manner in which the relationship between UGC, the state and universities evolved, universities enjoyed a considerable amount of autonomy and discretion in the allocation of public funds. For example, there was, more or less, simply a presumption about what portion of the recurrent grant was allocated to research and what portion to teaching, guided by the idea that British academics ideally spent 40 per cent of their time doing research. But beyond this presumption lay little in the way of
accountability mechanisms. The power of the academic oligarchy as embodied in the grants committee meant that universities did not necessarily make allocative decisions based on "the national interest:"

When a collegial model of resource allocation is working well, high academic standards and an ethos of professional integrity prevail. However, this situation can degenerate into protection of vested interests when resources are scarce. In particular, innovation is difficult. No constituent of the consensus is willing to give up anything, especially to a potential new competitor (Williams 1992: 67).

Prior to the major reforms implemented by the Thatcher government, the grants committee was in a position to protect per-student funding levels by recommending lower enrolment numbers (Coulby 1989: 100). Conversely, the polytechnics and colleges made a different choice, accepting more students at lower per-student funding levels. This different strategy on the part of the colleges and polytechnics had commanded the approval of the Conservative government on the basis of their greater efficiency and cost-effectiveness, and flexibility.

This 'room' to make different choices is related to the Thatcher's government concern with the 'principal-agent' problem. The question that the British government faced was, what sorts of changes were necessary to make universities more responsive? How can universities do what you want them to do despite their status as autonomous institutions? As both Leslie and Slaughter (1997b) and Williams (1992) note, the 1980s was not simply a time of cuts to British universities. It was, rather, a period of time in which the methods of fund allocation and shifts in resource dependencies changed the nature of the relationship between the state and universities. As Williams asserts, education markets do not require a prevalence of private funds: He asserts that the government felt that universities would become more efficient if it were to act as purchaser of university services, rather than providing universities with a recurrent grant to do
with it what they pleased. "In general ... under market arrangements there is an increase in the influence of purchasers of higher education services, the system tends to be more responsive to their demands" (1992: 68). This, in part, lends itself as at least a partial solution to the principal-agent problem – or in other words, “monopsony”: Government thus becomes a purchaser of specific services and in so doing specifies what it wants done with its contribution.

Policy Changes in British Higher Education and the creation of quasi-markets

There are three different categories relevant to introducing markets to higher education which serve to increase the diversification of funding sources outside of the recurrent grant:

1) Allocation by government to higher education in competition with other branches of education;
2) Formula based allocation of finance by government funding councils to individual universities and colleges;
3) Allocation of funds within universities and colleges to faculties and departments on a formula basis. (Williams 1997: 278-279).

Both funding initiatives and some major structural changes introduced by the Thatcher government (as well as the introduction of tuition fees, which was deferred by the Conservatives, identified in the Dearing Report and carried out by the ‘New Deal’ Labour government of Tony Blair) are reviewed below. In an effort to introduce private financing and encourage universities to engage in more market-proximate research, matching programs were introduced in which public moneys were used to leverage private support in areas of research where there were clear-cut benefits to industry. Structural changes were brought in which served to create a system in which a larger number of institutions – including the universities and those institutions in the public sector – would compete and bid with one another for both student spaces and research
support, serving to create quasi-markets. Moreover, research dollars were separated from support for teaching, and allocated on the basis of the performance of individual departments.

Policy initiatives

In an effort to encourage research efforts in areas with more immediately apparent market application, the government introduced four related funding programs, serving at the same time to satisfy the principal-agent problem by using financial incentives to encourage universities to carry out research identified by the state as priority areas. They are the 1) Alvey program, 2) Enterprise in Higher Education initiative; 3) Engineering and Technology program, and 4) Interdisciplinary Research Centres (Williams 1997; William 1992). These four programs were also designed to use public funds to leverage private sources of support in areas of critical national economic importance, each requiring institutions “to bid for funds on a competitive basis in accordance with specifications set out by the funding agency, and the bids were assessed by the funding agency” (Williams 1992: 79). At their peak, all four programs together represented only about 3 per cent of the annual income of universities.

Under the Alvey program, an initiative of the Department of Trade and Industry, the British technology and engineering sector was encouraged to invest in university research efforts in these areas, support which was then matched by public money. Funds were allocated on a competitiveness basis insofar as universities which hoped to compete for such funds would have to devote considerable resources of their own into these enterprises, and be able to demonstrate a certain level of quality in the specific area prior to applying (Williams 1997). The Alvey program was also intended to create research partnerships between universities and polytechnics, industry and various government departments, and at the high point of the program, there were 155 firms,
56 universities, 12 polytechnics and 24 other research units participating, at a cost to government of approximately £40 million (*ibid.*). Its funding was, however, discontinued after four years.

The Engineering and Technology program was an initiative to expand the number of science, technology and engineering places for students in the universities and polytechnics, and was funded by an earmarked grant from the University Grants Committee and the National Advisory Board, responsible for polytechnics (Williams 1992: 78). The Enterprise in Higher Education program was created to “encourage the development of qualities of enterprise amongst those seeking higher education qualifications” (*ibid.*). The two ministers most closely identified with the program were said to have been influenced by a similar Israeli program, and that the program was a response to “the anti-entrepreneurial bias in higher education. This [program] was a way of trying to address that” (quoted in Kogan and Hanney 2000: 110). The Interdisciplinary Research Centres were established by the Science and Engineering Research Council and the Economic and Social Research (1988) as a way of encouraging applied research of national importance, carried out across disciplines, with more immediately apparent commercial relevance. The effect of these policies served to create ‘quasi-market’ mechanisms in higher education – where research teams and universities themselves competed with other universities – so named for the market mechanisms used to allocated public funds which were then used to in leveraging private support.

**Structural change**

The introduction of competition played a key role in a variety of Thatcher’s reforms, a phenomenon largely absent in the age of the recurrent grant. A number of structural changes introduced in the 1980s served a dual purpose: to both firm up the central government’s role in
higher education, and introduce greater competition among all institution types. Following from the central principle of the Robbins report, in which all students who qualified should be granted access to a place in a university or polytechnic, the system thereafter was predominantly demand-led. However, during the first term of the Thatcher government, there was a perceived need to introduce more central planning, together with more competitive allocative mechanisms.

The first of those structural changes was the transfer of the polytechnics from the jurisdiction of the local education authorities to that of the National Advisory Board. The polytechnics were also rewarded with the privilege of becoming universities with degree-granting status with the passing of the Education Reform Act of 1988. As noted above, this sector had demonstrated a greater willingness to absorb a higher proportion of the increase in student enrolment than had the universities, which, with the help of the University Grants Committee, had tried to keep per student funding levels more or less intact. As Coulby notes, universities were less than enamoured of the notion of competition – for students, research funding – than were the polytechnics, which were well aware of their advantaged position given their ability to operate at lower costs. This did not put universities in good stead with the British state. Universities were:

seen as being somehow outside the nation’s control and as failing to co-operate as actively as they might in the economic revival that Thatcher’s ministers saw themselves as pioneering… Certainly, in terms of flexibility and cost-effectiveness, the universities were often seem to compare unfavourably with the growing polytechnics (Coulby 1994: 103).

The move to university status to the polytechnics was done extremely quickly without the support of the entire Conservative caucus. However, they were regarded largely as having earned the right given their openness to the state’s desire for greater efficiency and lower per unit cost. As well, the removal of the public system from the purview of the local education authorities was an
interface of a tension between the Thatcher caucus and the local government authority in general (Kogan and Hanney 2000).

Resulting from the elimination of the binary system and a 'convergence' to some extent in the functions and activities of these two institution types is the introduction of greater competition among all institutions: the polytechnics, as degree-granting institutions, are consequently performing an increasing amount of research and engaging increasingly in graduate education. This 'convergence' has obviously arisen in large measure from the conferring of university status, as well as serving to assist polytechnics in accessing resources to which they previously had none - resources previously reserved from universities. The theory of 'separate but equal' when it came to the universities and the public system was replaced with a system in which all institutions were required to compete with one another for fewer resources and more accountability requirements.

On the conspicuous date of July 14 1989 (the 200th anniversary of the storming of the Bastille in Paris, France, noted ironically by Swinnerton-Dyer 1991), the universities' protective layer was stripped away. The University Grants Committee was replaced with the Universities Funding Council (Williams 1990). The UFC was established by statute, and thus in theory a body with more independence than its predecessor, which had existed at the pleasure of the Secretary of State (Swinnerton-Dyer 1991). However,

... the UFC has suffered from far more nitpicking interference from [department of education and science] civil servants in the last two years than the UGC did in the previous five. Moreover, the Financial Memorandum which regulates relations between the DES and the UFC manifests in every line that the DES is not prepared to rely on the UFC's competence and good sense (ibid. 204-205).
The funding council was not really intended to replace the grants committee as a non-political, contemplative, expert-dominated planning instrument – the new body was meant to oversee the forces of the market in which institutions competed with one another through a bidding process for student places. However, not all would go smoothly from the beginning. The original design of the bidding system for the universities soon revealed a number of kinks, for the institutions refused to play the game and came to know the terms of the other bids. Further, the UFC was not impressed with the competitiveness of the universities’ bids and their proposed unit cost (Kogan and Hanney 2000; Johnes 1992). Alas, the goal of having universities compete with one another for student places was mute given the fact that institutions came to know the terms of the other bids – tendency presumably perceived by the government as an unacceptable form of monopsony.

**Division of teaching and research funding mechanisms**

The division of the mechanisms to support teaching and research also served to bring about a convergence in the nature of teaching and research in the universities and the public system and consequently more competitive among them. Due to the problems in determining the manner in which universities allocate funds – and thus how they may account for them – in 1985 the University Grants Committee introduced a funding formula whereby funds for teaching and funds for research were separated and calculated in a more transparent manner. (These functions, of course, were taken over by the Universities Funding Council upon its replacement of the UGC.) The teaching component was based largely and almost exclusively on student enrolment levels, while the allocation of research funds was done on a competitive basis by discipline. Departments – not institutions – were subjected to assessment and ranking exercises that determined their level of research support. Thus, the level of research carried out in engineering
science in University X was essentially competing against engineering research in University Y, creating micro quasi-markets based on discipline, not institution. Scores – based on the quality and quantity of the research carried out – were assessed in 1985 and became the baseline for successive allocation exercises in 1989, 1992 and 1996 (ibid. 98). From 1986 until the second round, the funding generated by this formula accounted for 15 per cent of the grants allocated to universities (Walford 1991: 174). The assessments were based on criteria such as: publications, ability to obtain research grants from the granting councils and research contracts both government and the private sector, success in obtaining studentships, and the results of peer review (ibid.).

Concern over the lack of precise knowledge of how research moneys were allocated originated at this time in the Treasury, and the government’s preference for funding research on a selective basis led to the appointment of a like-minded university grants committee chair (Kogan and Hanney 2000). “Selectivity was science-driven. The Treasury was behind the demand for concentration because of the black hole of money being spent on research. It started with science and got extended to the rest” (ibid. 98). There was little objection from the funding councils or the grants committee to the introduction of the research assessment exercise (RAE). According to one government official, the thinking behind the RAE was provided by the chair of the University Grants Committee, who felt he could no longer justify the large research grants to the universities.

The UGC is distributing massive research funds, we don’t know where they are going, whether they are being properly used, and here is [the National Advisory Board] producing good higher education without research funds, why does the university system need all these non-specific research funds? I am caught in a pincer between the two. I want the system to be more rational so that [polytechnics] could bid for some research funds... (in Kogan and Hanney 2000: 97).
And though most the government’s concern lay in the large outlays for research in science and engineering, the arts and the social sciences were also subjected to the assessment exercises (ibid. 97).

Both the elimination of the divide between institutional types and the nature of discipline-based assessment mechanisms for the purpose of allocating funds serve to create a market – or quasi-market – in English higher education. Together they served to extend some sort of autonomy to the then polytechnics by granting them university status, while partly withdrawing the independence of the universities with the reduction of the block grant and the increased reliance on funding formula to allocate support. It is these dual dynamics that serve to create quasi-markets.

Closer approximation to a market in higher education was also achieved with the elimination of tenure, as stipulated in the Education Reform Act of 1988, though an amendment in the House of Lords was made to try to protect academics from being fired due to holding unpopular opinions. The law also allowed for the nullification of any contracts in cases where redundancy was declared.

Interestingly, the introduction of student fees in England did not happen until the Blair Labour government was elected, as such a move was then regarded by the Conservative government as too unpopular. In 1997 the Labour government introduced a fee of £1,000 following the recommendations of the Dearing Report, however, through means-testing carried out by the local education authorities, the government would waive the fee for those unable to pay. It is estimated that one-third of students at the time did not pay any tuition, while another third pay a portion of it (Blake, Smith and Standish 1998). For all students, maintenance grants were eliminated, and were replaced with loans that in design fall under the rubric of ‘income-
contingent' insofar as they are repayable when a graduate's income reaches a certain level—£10,000 as of 1998. There are a variety of types of loans offered by the Student Loans Company, each with somewhat different terms of repayment. Those eligible for maintenance grants (those that cover living costs such as rent, food, etc.) are students with dependants, single-parent students and students with disabilities.

International students who are from non-European Union member countries pay a rate closer to the full cost of their education, a policy first introduced in 1976 (Kogan and Kogan 1983). At Oxford, non-EU students pay tuition of approximately £7,000 to £9,000 ($15,400 to $19,800 Canadian), depending on the program, plus college fees of £3,500 ($7,700 Canadian).

Government or market driven? The nature of change in British higher education

Kogan and Hanney note what appears to be the schizophrenic nature of British policy change in the area of social services: centralization alongside decentralization; the apparent roll back of the state in favour of the market, and the strengthening of state control through the introduction of accountability and performance measures. This apparently contradictory 'bundle of notions and policies' known as New Public Management is best characterized as "devolved responsibilities for the delivery of centrally planned priorities" (Kogan and Hanney 2000: 31).

For universities, its particular features are:

1) Cost cutting, capping budgets and seeking greater transparency in resource allocation (including formula based funding);
2) Introduction of market and quasi-market type mechanisms;
3) Requiring staff to work to performance targets, indicators and output objectives;
4) Shifting basis of public employment from permanency and standard national pay and conditions toward term contracts;
5) Performance related pay, and emphasis on service ‘quality,’ standard setting and ‘customer responsiveness’ (Kogan and Hanney 2000: 32).

Alternatively, Walford argues that the centralization and greater state control that has been exerted in higher education – a policy that represents Thatcher’s ‘schizophrenic’ attitude toward higher education – exhibits a move in the opposite direction to that taking place in the broader public sector. As other public sector services were being privatized and regulated, higher education, already at some arm’s length from the state, nonetheless had to be brought into state-control and then disciplined by market mechanisms, namely, being subjected to the wishes of the customer in its many forms. According to Walford, these changes are regarded as moves to make universities more responsive to the wishes of student as customer, labour market as customer, even government as customer.

An important adjunct to this is that the government wishes to see itself as just one of many possible customers for the universities. It wishes the universities to decrease their dependence on the government, become more entrepreneurial, and offer services to a wide range of customers. In particular, it believes that industry should be seen as a major customer for research, consultancy, training needs and so on. In encouraging this diversity, the government has recognized that various customers (itself included) would wish to ensure that they are getting value for money (Walford 1991: 174: italics added).

This division of teaching and research funding mechanisms was a recognition on the part of the British government that the market for instruction and the market for research were profoundly separate. Given the no- and subsequently low-tuition fee policy pursued in Britain, the government, on behalf of students, remained the most dominant purchaser – or ‘client’ – of instructional services, making it less of a ‘market’ than that which was created for research.
services, the split between the teaching and research funding mechanisms illustrated the
government's recognition that they constituted two separate markets.

As Kogan and Hanney argue (2000), introducing mechanisms that make institutions more
market-proximate and more responsive to the desires of consumers in their many forms is part a
larger backlash against the welfare state. It is therefore at first blush paradoxical that this
backlash co-exists with the desire to decrease universities' dependence on the governments, and
even more paradoxical, as Kogan and Hanney note (2000), that total spending on higher
education in Britain has grown. But such realities coexist, creating a system in which
governments simulate markets in an attempt to achieve significant system expansion at lower per-
unit cost to the public, and insert nationally and political identified priorities more centrally to
both the teaching and research enterprise.

In addition to the ideological component of the nature of these reforms and policy changes
in English higher education, the goal was largely to expand the university system and the
participation rate in the name of national competitiveness. Using the market model permitted the
Thatcher government to expand the system at a lower per-student cost than would have been the
case had market forms not been adopted. In this way the English experience bears a strong
resemblance to that of Australia, in which low- and no-tuition fee policies were perceived as
having failed to increase the participation rate among lower SES and Aboriginal students. As will
be evident, Australian reforms began with changes to tuition fee policy, through which fees were
introduced via an income surtax, or an 'income-contingent' loan repayment program.
Chapter VI

History & finance policy change in Australian universities

As noted in the introduction, Australia figures prominently as a national system of higher education that has adopted quasi-market and market forms – and fairly quickly. To achieve large-scale expansion with a minimal burden on the public treasury, policies were introduced to encourage universities to seek private sources of support, including charging increased student fees through a graduate surtax, known as HECS. With respect to the diversification of funding sources – including the collection of fees through the taxation system – Australian universities managed to collect half of their revenue from non-government sources only 10 years after the first series of changes were introduced. By 1999, only one-half of the $8.5 billion of universities' operating revenue came from governments, while 17 per cent was collected through HECS (Meek 1997), compared to the level of 90 per cent where the government grant stood a decade previous.

The challenge facing Australian policy makers is not dramatically different from those faced by Thatcher and many other leaders of OECD countries: how to expand the system to meet surges in demand and produce a work force prepared and credentialized to participate in the Knowledge Age alongside diminishing amounts of discretionary spending potential. In the late 1980s, Australia found itself in much the same position as Britain ten years before that. The system was almost wholly publicly funded and the market was but a twinkle in the Labour government’s eye. As noted in a 1990 OECD document on shifts in university finance, policies of a marketization flavour were introduced and pursued by governments of all political stripes (1990).

Prior to the federal consolidation efforts which began in 1974, tertiary education in Australia consisted of three sectors, two branches of which constituted the binary system of
higher education composed of the universities and the colleges of advanced education. The third sector outside of the binary system included the technical and further education (TAFE) institutions, which focus on vocational and technical training and adult education. The universities of Australia were all founded through Acts, passed by regional governments, except the Australian National University (ANU), which had from its beginnings been a creature of the federal government. The three older universities, Sydney, Melbourne and Adelaide, were established by the colonial governments at the end of the 18th century. They were, for most of their existence, then, the financial responsibility of their regional governments, however federal government control over universities was consolidated over several decades, as will be noted below.

One of the most influential and important reviews in the early history of Australian higher education was undertaken by the Chair of the British Universities Grants Committee, Sir Keith Murray, who was approached to oversee an inquiry in the future directions of Australia universities. One of the recommendations of the Murray report was the creation of an expert body to advise both the universities and the government on forms and levels of public support (Gallagher 1982: 56). The Australian Universities Commission was established in 1959 with statutory independence, to replace the Universities Commission, which itself was created only 10 years before in 1949 to advise the federal government on manpower planning. The mandate of the AUC was:

... in part a buffer between the traditional independent institutions and the governments which would share the cost of expenditure, in part a catalyst for accelerated development and in part an instrument for ensuring a supporting role for the central government (Gallagher 1982: 24).
The AUC oversaw a loosely co-ordinated university system (or what was really a collection of institutions funded through regional government), and made funding level recommendations (Cowen 1981). At that time each of the six state capitals had one university each, and were funded by the regional government, although the federal government began injecting a large infusion of funds into higher education in the interests of manpower training and an increasing interest in improving and making more competitive the nation’s science and technology sector (Meek 1991). However, the 1957 Murray Report recommended the federal government have a larger hand and play a more consistent role in funding the institutions, and began contributing $1 for every $1.85 universities collected from the regional governments and tuition combined. At the same time, tuition fees represented about 12 per cent of universities’ revenue (Taylor 1991: 187). The Prime Minister at the time, Robert Menzies, was able to argue that though higher education was constitutionally the terrain of the regional or state governments, the federal government could claim some role in financially supporting the system through special purpose grants (Smart 1997). According to Section 96 of the Australian Constitution, the federal government may “grant financial assistance to any State on such terms and conditions as the Parliament thinks fit” (Gallagher 1982: 25). Though some tension existed over the relative roles of the federal and regional governments with respect to the control and co-ordination of higher education, as well as numerous other areas of social service provision and the nature of the division of powers between Commonwealth and state, agreement was reached that the Commonwealth could and would become more of an active partner. In many areas, federalism increasingly gave way to federal co-ordination of many areas of traditional state control, including universities.
The AUC was to provide triennial reports on the financial needs of the universities, and developed the formulae by which state and Commonwealth governments would make their respective contributions to the financial operation of universities (Cowen 1981). This body was also regarded as a mechanism to prevent full control by the Commonwealth over universities, given the inevitability of universities' increasing reliance on federal support. Two developments in Australian federalism informed a shift in control from the states to the federal government, making this greater involvement inevitable: 1) the extension of the war-time precedent in which the federal government collected taxes on behalf of the states and the consequent reliance on the federal government for general revenue; and 2) the increasing predominance and frequency of the provision of special purpose grants from the federal government for services and functions constitutionally considered the realm of the region (ibid. 26-27). The largest of such grants were in education and to universities in particular (ibid.).

From the time of its establishment until the 1970s, there was considerable trust in the Australian Universities Commission in the ways in which the commission on both sides of the buffer divide, acting “sympathetically to the AUC and the individual representations of the 15 or so universities” (Gallagher 1982). It was in fact rare that the state and federal governments disregarded the advice and reports of the commission. Despite economic troubles in Australia in the beginning of the 1960s, and the reduction of ruling Liberal party seats, universities fared well with the infusion of federal funds under that government. The final reports of the commission were based on the vast amounts of statistical information provided by the universities and on-site visits to the institutions, which were then submitted to the federal government for final funding determination (Cowen 1981). Although the AUC's recommendations were often accepted by government, the committee often had to temper the requests submitted by universities,
particularly with respect to research funds and the approval of new programs, where the threat of duplication existed or in cases where there was no already-established critical mass of resources. For instance, in the triennial reports of the mid-1970s, the AUC rejected requests to establish new departments in earth science and archaeology on the grounds that "... universities should not duplicate costly overseas archaeological expenditures, especially in cases where a university is not a recognized centre for archaeological teaching or research" (Gross 1981: 45).

Through its first 10 years, the AUC effectively operated according to its mandate, making recommendations to government on the financial needs of universities, submitting the tempered requests of the institutions. However, despite the obvious mediation role the commission played, each university by the early 1960s had a fairly high degree of independence in the planning and execution of its activities, which was assured by two factors:

First, each institution had multiple sources of funding—roughly 20 per cent from tuition fees (collected and retained by the university itself), and roughly 40 per cent each from the Commonwealth and State governments. Second, and perhaps most importantly, there was a widely accepted convention that universities were and should be autonomous. Clearly, both these key factors were susceptible to change over time (Smart 1997).

One of the notable features regarding this period of university finance in Australia was the ever-increasing role that the federal government played in funding the system, which no doubt led to the almost complete 'take over' of university finance and regulation in the mid- to late-1980s.

From 1950 until the conclusion of the decade, funds for research had been folded into the general allocation to universities, however the Murray Inquiry – whose recommendations to establish a funding council along the lines of the British model led to the Australian Universities Commission – identified the need to both increase funding for research and develop some mechanism for its distribution (Gallagher 1982). Two areas were found lacking: support for post-
graduate research work and sufficient funds to support major research undertakings. Murray also recommended that the funds not be earmarked.

The first report provided by the AUC to the government departed somewhat from the Murray report. Designated funds for research, the AUC's chair felt, would be the only way to provide a measure of accountability, insofar as it would prevent universities from using the funds for other purposes, such as teaching. But the AUC and its Chair found little support among the universities for providing earmarked funds, and the first recommendation contained an allowance for a special capital grant that would be allocated based on a one-to-one ratio of federal and state funds. The government approved the principle, added that each of the universities would receive a portion of half of the grant, while the other half be allocated by the Commission based on institutional requests.

As the next triennial exercise approached, further reports and committees provided further models, some more sophisticated than others, of research funding and its allocation, while the AUC had advocated a much more generous arrangement. The question still remained how it would be allocated. The then-prime minister still harboured doubts about the how and stated:

The Commission just recently put up a proposition that we have not accepted because I want to go further into the type of research to be supported by the grant and where the money will be allocated... There is no question of the money not being given to the universities. It is just a question of the actual basis for distribution of money (Gorton in Gallagher 1982: 142).

At this time the previously abandoned notion of establishing a federal committee to recommend research grant allocations was resurrected – mainly due to pressure and proposals from the Australian Academy of Science – resurfaced as a likely policy option. The government reported that it had been “bombarded from all sides to develop a national sciences policy” (Gallagher 1982: 139) from both research communities and AUC commissioners. The government
concluded in 1965 that the Universities Commission would include research funds in its recurrent and capital grant for the purposes of post-graduate training, while an additional body – the Australian Research Grants Committee – would allocate funds based on the submissions provided by universities and researchers, a competition open to both universities and government research bodies. Gallagher notes that this period in which negotiations and investigations over the appropriate allocation of research money which gave rise to the creation of the Australian Research Grants Committee (while rejecting the AUC research funding allocation proposals), signalled the Cabinet’s and the prime minister’s decreasing reliance on the AUC’s advice (1982: 143).

As a parallel to the British experience, AUC chair Leslie Martin oversaw in 1964 a broad evaluation of the higher education sector, arguing the rationale for the establishment of the colleges of advanced technology. He initially indicated that university expansion was not in the cards given that most policy makers and politician saw a growing need for more technological, scientific and vocational training, and cost considerations (Meek 1991; Harman 1999). However, expansion and growth were dominant themes in that period of universities development. Moreover, student enrolment over the period from 1947 to 1963 increased 130 per cent (Gallagher 1982: 72), and the Martin Report asserted that higher education “should be available for all who wanted it and had the ability” (Smart 1997).

Despite the concern expressed in the Martin report regarding the costs of expanding the university system, and his preference for investing public funds in more vocational and technical training institutions, together with the economic set-back experienced by Australia at the beginning of the 1960s, nine new universities were established, bringing the total to 18 (Taylor 1991).
During the 1970s and at this stage in the development of a state-federal agreement on their respective roles in higher education development, three major policy decisions were taken by the Labor government: 1) the federal government would take on virtually the total bill for higher education (excluding the TAFEs); 2) tuition fees were completely eliminated and a comprehensive student maintenance-grants program was created; and 3) the regionally controlled teachers' colleges were reclassified as colleges of advanced education for the purposes of funding (Tomlinson 1982; Meek 1991). The elimination of student fees was part of an effort in increase the student participation rate, particularly among under represented groups, such as students of lower socio-economic status, women and Aboriginal Australians. Studies done at the time demonstrated that the participation rate among these groups had not increased with the elimination of fees (with the exception of education programs, which, with the help of state-provided scholarships, attracted substantial numbers of women, rural students and lower SES students). However, the overall rate of enrolment increased by 25 per cent from 1974 to 1984, a rate considerably higher than population growth (Taylor 1991: 194). As in many other OECD countries, the participation of female students in post-secondary education increased substantially during this period, increasing their rates from 48 per cent in 1978 to 53 per cent in 1987 (ibid.) However, much of this growth had occurred in the colleges of advanced education, with increases over the decade of 38 per cent versus a more modest increase of 14 per cent in the university sector (ibid.). Thus, government studies had shown that, with the exception of women, the abolition of tuition fees had failed to increase the participation rates of under-represented groups. This paved the way for the re-introduction of fees through the HECS initiative toward the end of the decade.
In 1981 the Commonwealth Tertiary Education Commission identified a particular need to achieve some economy of scale, especially with the teacher-education institutions. Given decreasing demand for teachers combined with the institutions' inability to scale down in like degree and the need to expand enrolment levels in other programs such as business, administration, and economics, the central government began a number of amalgamations (Taylor 1991). The teachers' colleges were merged with other, larger institutions, which could more easily shift resources away from teacher education to other areas. Some merger arrangements involved two institutions, while five involved four or five (ibid. 189). Eighteen universities remained, along with 45 colleges of advanced education (ibid. 188).

A major undertaking to reform the higher education system – including the elimination of the binary system – began in 1988, and some of its particulars were outlined in Higher Education: a policy statement released by the Ministry of Employment, Education and Training. The document outlined a plan to unify the system of higher education, and each institution – whether it be university or college of advanced education – would be required to apply for membership, and possess minimal student enrolment of 2,000 full-time equivalent students (Higher Education, p. 29). Institutions with enrolment levels that did not reach the threshold could seek a merger arrangement, which was also encouraged in the document with the view of achieving greater economy of scale through the consolidation of unnecessary duplication of management structures. Under the unified system,

Institutions will be able to compete for teaching and research resources on the basis of institutional merit and capacity. Teaching will remain the predominant activity of all institutions, whereas research activity will vary according to demonstrated capacity. No institution will be guaranteed funding for research across all its fields of study, and only those with a demonstrated capacity will be funded for research across the broad range of its programs (p. 28).
Institutions that were not successful in their application for membership in the system – or institutions who outright did not apply – were not guaranteed any measure of public funding.

Institutions would be required to develop a profile that outlined its "broad mission and responsibilities, and establish its particular areas of activity and specified goals" (p. 29). The institutional profile would function as a contract between the Commonwealth and the institution, and provide the basis for funding allocations. The initial profile would contain:

1) A description of the institution’s broad mission, together with its objectives;
2) Details of the scope of the institution’s teaching activities for the 1989-91 triennium, including commencements, student load and graduations;
3) An outline of current research activities and a research management plan, in which institutions would be expected to given priority to disciplines relevant to national social, economic and development needs;
4) A statement of intent on measures to achieve national priorities, including equity;
5) Details of other significant activity;
6) Approved funding levels (p. 30-31).

Among the other important changes was the way in which grants would be allocated: an operating grant would replace the allocation that had covered other university expenses such as capital, minor works and special research grants. Moreover,

Additional operating grants for enrolment growth will be determined in the Budget context and allocated on a competitive basis. This allocation will have regard for institutional capacities in key disciplines of national priority, as well as to relative rates of participation and student demand in different states and regions (Dawkins 1988: 80).

Additional sources of earmarked funds would be the Reserve Fund, through which 1 per cent of the operating allocations would be disbursed “on a [competitive] basis of the institution’s response to specific Commonwealth initiatives or to identified areas of national priority” (p. 81).
Still further funds would be available for equalizing the funding to institutions under the old system; for research to be determined on a competitive basis; and for capital funding (p. 83-85). The government also announced its intention to develop performance indicators, based on student satisfaction and completion rates, relative staffing levels and research publication and consultancy rates, indices originally developed strictly for a discipline review of engineering. Other considerations for funding would include those which gauge ‘organizational efficiency’ and success in meeting equity goals (p. 85-86).

Moreover, to subject the allocation of research funds to a greater degree of competition, increasing moneys would be transferred from the former recurrent grant to the Australian Research Grants Council. In light of these reforms, the Council would also be asked to recommend on how research funds could be better allocated in a more selective manner, specifically on: the appropriate balance between basic and applied research; the identification of areas of strategic basic research that hold the greatest potential for exploitation in Australia; and the role and funding of designated institutes and centres (p. 91). The ARGC would also investigate the potential for diversifying the sources of funds for research, and explore the potential for industry support for post-doctoral researchers, matching programs, and the mobility of researchers between higher education institutions and industry (p. 91-92).

Strikingly similar system changes were introduced in Australia and Britain, including: 1) the development of more sophisticated mechanisms for allocating operating funding (that covers costs associated with teaching, among others) and those that are used to allocate research moneys; 2) the break-down in the divide between vocational and technical institutions and universities, and; 3) the consequent competition for funds that would ensue among institutions normally buffered from one another by their performance of different goals and activities.
Discussion of Selected Policy Changes – shift toward marketization

According to Marginson, Australia embraced the market model more fully and more rapidly than any other OECD country (1993: 196). Australian education policy documents at all levels, he notes, are littered with terms such as "educational property, educational enterprise, entrepreneurial approaches to education, educational services, products, packages, sponsors, commodities and consumers, value-added education, user pays, choice and so on" (Kenway et al, 1993: 108). National interest in rationalizing the system and introducing the discipline of the market led to a number of initiatives, which were introduced by the Labor government in the first wave of reform initiatives. Some of these initiatives are:

- The introduction of a form of tuition called the Higher Education Contribution Scheme (HECS), a pay-later-through-the-tax-system plan;
- The introduction of competitive mechanisms for attracting income from research and students;
- The introduction of some degree of performance funding; and,
- Policy that would serve to diversify universities' funding sources (ibid.).

Like Britain, funding and policy changes introduced in the 1980s as part of large-scale university reform have been guided by the principles of the market, and central among them is the notion of competition. As Kenway et. al. note, the use of such a metaphor as the market for guiding policy and funding changes, though common in other countries where much more of a blend of public and private finance mechanisms exist, represents a substantial departure from traditional policy in Australia, where governments had largely regarded it as their task to fund the system (1993). But the need to expand student spaces and university participation rates in the face of the decline in commodities earnings and the consequent decline in the government's
coffers resulted in the determination to reduce public sector costs (Coaldrake 1999). Moreover, with the related rise in concern over efficiency, “the public sector generally and the public sector in education are juxtaposed against the private/market and found wanting” (ibid. 107; Coaldrake 1999). However, unlike Britain, the introduction of fees in the form of the Higher Education Contribution Scheme in particular would enable the Australian government to manage significant expansion with the assistance of an infusion of funds through the graduate tax. In the interim, however, a minimal fee was charged, called a Higher Education Administrative Charge, which amounted to an average of $250 (Australian) per student, but the new fee scheme permitted much larger tuition revenue. In 1995, revenue from HECS accounted for 12 per cent of total university income (Harman 1999) and one-quarter by 1998 (Coaldrake 1999). Further, it is estimated that HECS will generate more than $440 million (A$550 million) in 2001 (Lang et al 2000).

This is by far the Australian policy change that has attracted the most attention of Canadian and other policy makers and governments, both federal and provincial. In the process of reviewing the student assistance plans in 1994, the federal government, as well as the provincial government of Ontario, considered the establishment of some kind of income-contingent loan system, a plan in which loan repayment rates would be based on post-graduation income rates. Australia provided a model for such a plan, in the form of the Higher Education Contribution Scheme, although implementing some form of income-contingent loan scheme in Ontario has largely lost its lustre.

Under HECS, students have several options as to how they may pay their fees. Two options offer rebates with either a portion or complete payment. The third allows for the full sum of tuition to be paid through what is known as the HECS, which is a series of deferred payments made through the federal income-tax system. Repayment in the form of a tax debit begins when
the graduate's income reaches a certain threshold (the average industrial wage). The rate of annual repayment is one, two or 3 per cent of taxable income, depending on the level of income above the established threshold (Lang et al 2000).

The contribution scheme was conceived of in a review of the system that took place in the mid-1980s. The HECS was felt to be the answer to some of the questions posed in the review, including the concern that the system was not funded in the interests of fairness (Lang et al 2001). The HECS initiative was part of other changes, including changes in the assistance programs aimed at targeting groups of financially disadvantaged students; the introduction of 'education and training levies' both as a means of leveraging additional funds for higher education and as a means of promoting skills development; the identification of other sources of funding for disadvantaged groups; and the elimination of HEAC, the A$250 charge. It has been suggested that the stated abolition of the HEAC was a politically motivated reminder that HECS means an introduction of tuition where there had been none before (Lang et al 2000).

As of 1999, for students who began their studies prior to 1997, tuition for a full-time course load was A$2,560 (Cdn $2,048); for students who enrolled after that date, tuition has been increased and differentiated on the following basis:

- A$3,409 (Cdn $2,727) for arts, humanities, social studies, behavioural studies, education, visual and performing arts, nursing, justice and legal studies;
- A$4,855 (Cdn $3,884) for mathematics, computing, health sciences, agriculture/renewable resources, architecture, engineering, business and economics;
- A$5,682 (Cdn $4,545) for law, medicine, medical science, dentistry, dental sciences and veterinary science.
Moreover, the income level at which graduates must begin to repay their loans has been lowered (Meek and Wood 1997).

More recently, the subject of a more ‘student-centred’ funding scheme, or voucher system, has been discussed, as proposed in the West Committee’s Learning for Life in late 1997. The committee was to review the operation and financing of the higher education sector in the context of the government’s announcement of yet another round of major reductions in public support. The centre-piece of the document was a proposal to direct funding for institutions through students in the form of a voucher system, while HECS would cover the difference between a student’s calculated voucher entitlement and the institutionally determined tuition fees (Harman 1999). To ensure a more perfectly informed student-consumer, institutions would be required to provide additional information on programs and courses.

The committee’s proposals received fairly negative reactions. As Harman notes, the report exhibited all the signs of being assembled in a hurry, and according to one vice-chancellor:

The discussion paper is so desperately shallow ... avoids asking, never mind answering, some of the fundamental issues that one might expect in such a report. A glaring absentee is the omission of any proper consideration of the nature, rationale and role of universities in a modern society that has a long tradition of higher education. The Discussion Paper instead espouses without adequate argument an absurdly utilitarian model of a university as a kind of training factory... The text speaks grandly of a vision and a direction, but the former encapsulates a nightmare, where high quality institutions are transformed to narrowly defined schools catering to the needs of their customers (Vice-chancellor Michael Osborne, quoted in Harman 1999: 29).

Though this report has not been implemented since its public airing, a whole-heartedly market approach has been adopted in the finance of international students and the fees they are charged. In 1986, approximately 500 foreign students were registered in Australian universities and colleges of advanced education. Nine years later, it was estimated that 80,000 international
students contributed A$1.9 billion into the Australian economy (ibid.). The 1987 Green Paper identified foreign students, under a full-fee regime, as being another potential source for revenue:

In light of significant external economic changes and changes in the policy and administrative environment, Australia could no longer see itself so much as a donor of education and training services to developing countries, a benefactor, but more of a partner where mutual benefits for individuals and countries is the desired outcome (Department of Education, Employment Training, quoted in Meek and Wood 1997: 259).

With the promise that institutions could retain the income generated from international student fees, Australian universities and colleges begun a marketing campaign and recruitment exercise overseas that has, according to Meek and Wood (1997), creating fierce competition among institutions.

As indicated in Dawkins’ White Paper, significant changes have been made in the ways in which research funds are allocated, particularly in the direction of introducing greater competition and selectivity. This was achieved primarily through three strategies: 1) shifting an increasing amount of the recurrent grant under the old system into a competitively determined allocation; 2) the requirement that institutions produce management plans for how moneys would be granted within institutions; and 3) introducing the research quantum, which tied a proportion of operating funds to institutions’ success in fulfilling a number of performance objectives, including indices of research publications, ability to attract income from consulting, competitive research grants secured and graduate student commencement rates (Meek and Wood 1997; Coaldrake 1999).

According to Meek and Wood (1997), this ‘research quantum’ initially represented 6 per cent of the total operating support from the Commonwealth in 1990. However, it remained unadjusted and fell to 4.5 per cent in 1997 (Coaldrake 1999).
Even basic research did not escape an increasing emphasis on 'strategic' investment, with the introduction of the Co-operative Research Center (CRC) and the Australian Research Council program in collaboration with industry (*ibid*.), which allocates 20 per cent of its funds for basic research to government identified 'national priorities.' Both these programs were in part meant to bring together 'knowledge creators' with 'knowledge users,' by increasing the potential for technology transfer from the universities to industry (Meek and Wood 1997; Coaldrake 1999). The CRC was established in 1990 to support prioritized areas of research; to strengthen the relationship between research and its potential applications; and to build research centres with links to industry (Meek and Wood 1997). In the seventh year of the operation of the CRC, 67 centres had been established, involving 250 Australian and international companies, 61 government agencies, 35 universities, 24 divisions of the nation's applied research agency (CSIRO), eight other research agencies, and others (Coaldrake 1999: 127). The Commonwealth government’s share in terms of the funding of the centre was initially 50 per cent, according to Meek and Wood, but according to 1997 figures the government share fell to 30 per cent, with industry contributing 17 per cent, universities 23 per cent and the Commonwealth Scientific and Industrial Research Organization contributing 14 per cent (Coaldrake 1999). Most recently – and somewhat ironically – the Department of Employment, Education, Training and Youth Affairs (the replacement of DEET) commissioned international accounting and management firm KPMG to do a study on the costs of peer review, which found them disproportionately high in relation to the grants awarded (Coaldrake 1999). Finding the mechanisms to ensure competitiveness and selectivity too costly, Coaldrake suggests there may be a future move back in the direction of the early 1980s, when block operating grants were more popular (*ibid*.). Apparently, ensuring efficiency and selectivity has proven a fairly costly venture.
In an attempt to understand the nature of these funding policy changes and the emergence of educational markets in Australia – encouraged by the increasing introduction of competition as a guiding principle in the allocation and distribution of research and operating grants and the introduction of fees in the form of a graduate tax and the emerging differentiation in tuition charges by program – have invited a variety of analyses. But Kenway et al (1993) argue that the use of the concept of privatization – conventionally defined as load shedding, the use of vouchers in which public funds may subsidize private production, deregulation and the privatization of finance – may not fully capture all the nuances of education markets. Pring (in Kenway et al 1993: 111) argues that market forms and marketization in education all are facets of privatization, and includes: “... the purchasing at *private* expense of education services within the *public* system, and ... The purchasing at public expense of educational services in private institutions” (italics in the original). However, it is unclear in this scheme, particularly in the first instance – “the purchasing at private expense of educational services within the public sector” – what the appropriate balance is between public and private finance in public systems. Presumably, what makes the public system public is in part the continuing role that public finance plays in the operation of such institutions. So what proportion of private and public financing would invite the ‘privatization’ label? What is the balance? Moreover, the application of the notion of privatization to the finance policy changes noted in Australia and Britain thus far in this thesis fails to capture the changes in the nature of the allocation of public funds in the system:

Equally, [privatization] has difficulty in accommodating those structural, financial and ideological shifts within the state system, which encourage some aspects of a market mode. These include certain forms of devolution; a highly elaborated emphasis on choice, competitiveness and individualism; school effectiveness research and so forth but which, again, do not necessarily involve the transfer of costs (Kenway, Bigum and Fitzclarence 1993: 112).
This is not, as noted elsewhere in this thesis, to exclude the relevance of shifts in the balance of public and private resources, however, privatization does not sufficiently allow for the most interesting and nuanced developments in higher education finance policy in many political jurisdictions: the adoption of market mechanisms by the state to dispense public funds marked by increasingly competitive allocation criteria.

Having outlined the respective paths taken by England and Australia en route to more marketized systems of higher education, the thesis will now turn to the Canadian province of Ontario and its adoption of market-like university finance policy reforms. In the next chapter, a brief history of federal and provincial (Ontario) university funding policies will be examined in order to illustrate the nature of the dramatic and rather hastily introduced reforms of the mid- to late-1990s. The next two chapters of the thesis will also outline the nature of the Canadian federation and the arrangements which have ultimately allowed Ontario to pursue education and industrial policies as if it were a nation-state.
This chapter will examine trends in both federal and provincial patterns of post-secondary education finance in Canada and Ontario. Under the British North America Act, post-secondary education (as well as health care and education) is a provincial responsibility, however federal transfers are intended to contribute to provincial grants to universities. With the evolution of the Canadian federation, the federal and provincial governments developed some agreement and conventions over a further division of financial responsibility for post-secondary education. For example, since World War II, the federal government has contributed substantial support to post-secondary education through its funding councils and competitive matching programs, as well as providing student loans and, more recently, merit-based grants directly to university and community college students.

However, this arrangement of the division of financial responsibilities between the federal government and the province is not as tidy as it sounds, and the 'agreement' more fragile. Both these formal and informal prescriptions regarding the financing roles of the federal and provincial governments provide an important contrast with the case studies examined in the previous chapters. In England universities have been the exclusive responsibility of the national government; in Australia, the consolidation of federal powers over universities were decades in the making. In contrast, constitutional squabbles - a Canadian pastime - have animated discussions between Ottawa and Quebec City when the federal governments has attempted to participate more actively as a financing partner in PSE. The federal government initiative designed to deliver merit-based student-aid grants to about 7 per cent of Canadian community
college and university students, called the Millennium Scholarship Fund, is the most recent interface of such constitutional tensions.

Opposition parties mounted several objections to various facets of the Millennium Scholarship Fund (Bill C-36), including the fact that the cost of the program appeared in a single year in the public accounts despite its distribution over three budget years; and that the federal government offered this program of direct subsidies for its high visibility – in other words, for the public relations points the Liberals would score with the voting public.

However, the most criticism was levelled by the Bloc Quebecois members of the federal legislature. As a province with some degree of secessionist aspirations, Quebec denounced the Millennium Scholarship Fund as an incursion on its autonomy and authority in PSE. Quebec had had chosen not to participate in the Canada Student Loans program introduced in 1964. The governing Bloc Quebecois had introduced a number of amendments to Bill C-36 (which all ultimately failed), including one that would allow Quebec to opt out of the program and use the funds to enrich its own student aid program. In response to the bill, Yvan Loubier, Bloc member for Saint-Hyacinthe-Bagot said:

Why are we presenting this group of motions? For one good reason: with the millennium scholarships the government is not minding its own business. In the course of three weeks of hearings before the Standing Committee on Finance, 14 organizations from Quebec all said the same thing, which was that the federal government has no business meddling in an area of exclusive jurisdiction. According to the Constitution these people claim to be defending, the federal government cannot interfere, and the organizations are calling for the right to withdraw with full compensation for Quebec (Edited Hansard, 1610, No. 105, May 13 1998).

Further, Bloc members charged that the federal government had gone out of its way to ensure that, by virtue of the design of the program, Quebec would find it difficult to opt out of the
program. Paul Crete, Bloc member for the riding of Kamouraska-Riviere-du-loup-Temiscouata-Les Basques, added:

The federal government had to choose between two alternatives. To put in place a student loans and bursaries program like the ones available elsewhere in the country, all it had to do was amend the Canada Student Loans Act. This way, the rest of Canada could have benefited from a loans and bursaries system similar to the one in Quebec. Why did the federal government not take that route? Because this meant automatically allowing Quebec to use its right to opt out with full compensation and has apparently been doing so properly... In Quebec, the average debt load of university graduates is $11,000. In Canada, it is anywhere from $18,000 to $25,000. Obviously, Canadian students are curious about what makes the Quebec system so successful. The main reason is the fact that there is a bursaries program within the Quebec system (Edited Hansard. 1630, No. 105, May 13 1998).

The Millennium Scholarship Fund and the ensuing disputes provides an illustration of the uneasiness vis a vis the balance of Canada's provincial-federal, fiscal responsibilities for post-secondary education and the nature of the federative arrangements.

Trends in federal finance of post-secondary education

Set against these constitutional disputes, the federal government nonetheless has had a role in supporting post-secondary education, though cash and tax points in the form of transfers to the provinces have been reduced, having hit a high point in the late 1960s and early 1970s (Mimoto and Cross 1991). As a result, tuition fees and other sources of income have increased as a percentage of university income (Dupre 1998; Little 1997). However, because post-secondary education is the terrain of the province under the British North America Act, among the provinces there is some variation in funding levels and policy response to the federal reductions. Moreover, trends in university funding, tuition policy and the development of provincial science policy will be examined against the backdrop of changes at the federal level.
There are a variety of ways the federal government continues to support post-secondary education. The following are the five primary vehicles through which this support is delivered:

1) Funds are transferred to the provinces for university operating support through the Canada Health and Social Transfer (which replaced Established Program Financing). The CHST arrangements authorise federal contributions of cash and tax points to provincial and territorial governments for insured health services, extended health care services and post-secondary education;

2) Aid to university research is provided by many federal departments and agencies. The largest share is provided though the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research (formerly the Medical Research Council), the Social Sciences and Humanities Research Council, and the National Research Council. Funding from the first three research councils is provided mainly through research grants and training and salary awards. Contributions are made toward the direct costs of university research and represent a major source of funding for research at Canadian universities;

3) Student assistance is provided directly to students in the form of loans and interest payments under the Canada Student Loan Program, as well as special opportunity grants for students with particular financial needs. In addition, there are a number of other specific programs at the federal level, administered by various departments and agencies, which offer support to students in the form of scholarships, bursaries, grants, fellowships and allowances. More recently, the Canadian Millennium Scholarship was established, an endowment which awards grants to academically gifted students and essentially serves to decrease the amount of debt a student incurs (Human Resources Development Canada 1996: 9).
4) The Canadian Foundation for Innovation, an independent foundation established in 1997 which provides matching funds for research infrastructure in strategic areas and researcher salaries. The funds are allocated on a competitive basis, and the institutions eligible for the funds are universities, colleges, hospitals and non-profit research institutes.

5) The Canada Research Chairs program, which establishes faculty positions at Canadian universities determined through a formula based on the level of research support obtained by the institutions from the granting councils.

Generally speaking, funding changes on the federal front in terms of both level of support and its forms have evoked changes in educational finance on the subnational level. In Ontario, for example, the province is not only passing on those reductions to universities, but is also serving to re-organize the manner in which universities are resourced. Nationally, provincial and federal governments' share of support to the post-secondary sector has decreased from a combined share of 79 per cent in 1992-1993 to 73 per cent in 1996-1997 (Dupre 1998). The share that students pay through tuition fees has increased on average over the same period from 11 per cent to 15 per cent. Over the past two decades, the "funding/fee ratio" shows a profound shift in government-student share of institutional operating revenue. In 1977, governments contributed $5.02 to universities' operating revenue for every $1 collected in student fees, rising to $6.44 in 1980. The government share fell then declined every year since 1980, reaching $2.97 in 1995 (Little 1997).

Despite the declining role of federal support for Canada's universities, at the national level higher education continues to fare well in terms of public support in comparison to other Organization for Economic Co-operation and Development (OECD) countries. As of 1995,
Canada spent 1.7 per cent of its Gross National Product on universities and colleges in the comparison with the 1 per cent average of the OECD nations, and 1.2 per cent in the United States (Little 1997). However, these shifts have provoked considerable commentary on the part of higher education scholars and researchers in an attempt to forecast the future, a future that sees a reduced role for public funds in university finance.

Perrins notes the ways in which the federal government played an important role in financing the Canadian university "system" over the last 60 years (1998). Through the Youth Training Act of 1939, the federal government made available loans and grants to university students. The 1945 Veterans Rehabilitation Act allowed for the delivery of direct grants to veterans of the Second World War, as well as operating funding to universities as a result of the tremendous surge in enrolment. And in 1964, the federal government established the Canada Student Loan program, the source of 60 per cent of a student’s assessed need (with the remaining met by the provincial programs, either through loans, grants or a combination of both).

In addition to the country’s student aid program, the federal government played an important role in many respects through what was until recently called the Established Program Financing program and now called the Canada Health and Social Transfer. Historically, 32 per cent of the EPF was intended for post-secondary education, while the bulk of the remainder was to fund health care, though it was a ratio which did not enjoy consensus between the federal government and the provinces. With the introduction of the Canada Health Act – a piece of national standards legislation – provinces were effectively required to shift a much greater percentage of the EPF to healthcare spending. Indeed, from approximately 1977 to the mid-1980s, one-half of the provinces were spending less than they received in federal contributions for post-secondary education (Skolnik 1987), due in part to the pressures exerted by the Canada
Health Act. However, with the introduction of the CHST, any pretense that the EPF was a transfer with any implicit allocative force was abandoned. In addition to these design changes, declines in federal transfers to the provinces have, according to Perrins, greatly hampered the provinces’ ability to fund Canada’s PSE sector at an appropriate or sufficient level.

Federal contributions to post-secondary education increased dramatically in 1965. The Federal-Provincial Fiscal Arrangements Act of 1967 replaced the grants the federal government made directly to universities with a much more generous funding arrangement (Mimoto and Cross 1991). This was followed by a period of rapid expansion in the post-secondary sector, guided by a federal government that regarded a high university participation rate as a key in promoting and ensuring economic growth in the post World War II boom (Stager 1989). The federal government was intent on designing a network of universities and colleges that would accommodate the high demand for university degrees, and felt it appropriate that it play a role in its expansion. Post-secondary education was regarded then, too, as an investment to the benefit of the national economic interests.

However, the mid-1980s, the federal deficit had reached 8.7 per cent of the Gross National Product, a ratio deemed unacceptably high by two of the three main political parties represented in the Parliament of Canada (including, most importantly, the government). Between 1975 and 1985, spending in all areas at the federal level had increased annually at a clip of 13.8 per cent. In the mid-1980s, the federal government spent $1.33 on social program spending and provincial transfers for every dollar that it received in revenue (Frechette 1995). At that time Ottawa began to selectively target transfer payments, singling out the funds earmarked for what they considered to be the post-secondary portion of the transfer payment (the 32 per cent mentioned above). In 1984, the federal government amended the Fiscal Arrangements Act, introducing the "six and
five" program, which restricted annual growth in the education component of the EPF transfer to between 5 and 6 per cent. Health-care spending at the point escaped unscathed – or so the federal government regarded it – as it was still the country's scared cow and dramatic spending cuts would not have been well received by the Canadian public (Frechette 1995).

By the end of the 1980s, the view that Ottawa was down-loading the deficit onto the provinces was fully entrenched in the collective language of Canada's first ministers, as the federal government under Brian Mulroney embarked on the second phase of its attack on the deficit through the reduction of transfer payments. Bill C-33 brought increases in transfers down by one percentage point lower than that formula established in the Fiscal Arrangements Act, which spelled out the appropriate formula for provincial transfers entitlements. Federal Finance Minister Michael Wilson's 1991 budget extended the previously announced freezes for the next five years, as the federal government sought savings of almost $3 billion over the next five years.

At the end of the fiscal year 1994-1995, the federal government still cleaved to the notion that it had earmarked 28.8 per cent (or $6.2 billion) of the EPF transfer for post-secondary education, despite the knowledge that most provinces had been required to spend an increasing portion of the transfer on health care, which had experienced spiralling costs. However, any such pretense was over with the introduction in the 1995 federal Liberal budget of the end of EPF and its replacement, the Canadian Health and Social Transfer. In the government's own words, "the extension of the block-funding approach will provide greater fiscal flexibility to meet their own priorities and to design better programs for their residents, reflecting their unique circumstances and needs," (Human Resources Development Canada, 1996: 11) and reflects "the reality or provincial and territorial responsibility for education (ibid., 21). In other words, this piece of legislation reconfigured the funding scheme for the three "big-ticket" social spending items –
healthcare, hospitalization and post-secondary education, rolling the spending envelopes into one block grant. In addition to the combining of the three spending envelopes, the government indicated its intention to reduce the post-secondary portion of the federal transfers by $700 million over three years.

Despite very gradual tuition fee increases across Canada during the 1980s, increases to the maximum loan amount available to high-need students failed to keep up. From 1983 to 1992, a period in which tuition fees experienced real growth of 50 per cent, the maximum CSLP weekly amount available to students remained frozen at $100 (Little 1997: 19). In 1993 this amount was increased to $105, and again increased in 1994 to $165. However, with inflation taken into account, this increase of 55 per cent over the period of 1983 to 1995 was insufficient to match the rate of increase in tuition fees, which reached 75 per cent by 1995.  

Changing patterns of university finance

Non-government sources of funding have become increasingly important for Canadian universities. In an address made to the Partnership Group for Science and Engineering on Ottawa, 1998, Dupre provided a glimpse into the changing trends in the financing of Canadian universities. Over the period of 27 years, federal funding for universities declined from a substantial 21.7 per cent in 1956-1906 to 8.2 per cent in 1996-1997, though the decline was not steady. In the fiscal year 1976-77, federal contributions counted for 8.4 per cent, increasing to 11.6 per cent in 1984-85, falling again over the next 12 years.

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2 Even with this fairly substantial increase in 1994, students were unable to celebrate in the province of Ontario. In its spring budget, the New Democrats in Ontario reduced the amount available in the provincial aid program by an amount equal to the federal increase in weekly loan limits. While the CSLP was responsible for 60 per cent of a student's assessed loan needs, the province met the remaining 40 per cent. The end result of the federal increase and the provincial decrease meant Ontario students would enjoy no benefit of access to more loans in the face of steady, if gradual, tuition fee increases.
Meanwhile, student fees over the past 27 years had initially begun to decline in importance, although this trend started to reverse again beginning in 1976-77. During the year of 1959-60, fees represented a very high 28.5 per cent of Canadian university income, falling to 12 per cent in 1976-77. Over the next 20 years that figure rose to 18.4 per cent (please see Table 7.1 at the end of this chapter).

Dupre's category of "GISM" represents revenue from non-government grants, investment income, sale of services and "miscellaneous," categories 4, 5, 6 and 7 listed above. As is evident in Table 7.1, these sources of revenue grow in importance as the combined role of federal and provincial support declines. The current situation shows that as the combined support of the two levels of government returned to its level of the 1950s, and fees decreased in importance, GISM was no longer a source of supplemental income, but rather a vital one.

There are several notes necessary to Dupre's Table 7.1. Firstly, the figures take into account all university income, which includes operating and other. Operating income covers expenses such as instruction and salaries and libraries, and excludes others such as ancillary operations, capital expenditures, university publication enterprises and the like. With some items excluded, therefore, the share of tuition fees to an institution's operating budget rises. Using all income versus operating income also gives a different complexion to the role of the provincial grant over that same period. Provincial grants to universities' operating budgets stood at 84 per cent at the beginning of the decade, declining to 80 per cent by 1989 (versus Dupre's 1984-1985 figure of 65.9 per cent). For example, Statistics Canada figures show that tuition fees accounted for 13 per cent of Canadian universities operating income as of 1980, rising to 17 per cent by 1989 (Little 1997: 12), compared with Dupre's figure of 12.8 per cent, whose tabulations over-emphasize the role of tuition given the manner in which Dupre calculates GISM.
And lastly, the "GISM" category includes gifts, bequests, sales and services and other forms of philanthropy taken in during the fiscal year in question. However, many such contributions are endowed, and thus the amount for expenditure in a given year is lower than that which is suggested in the figures. Table 7.1, nonetheless, paints an overall picture of change over the decades examined.

Another noteworthy aspect to the table is that because it depicts the national scene and are thus average figures, it masks how the different Canadian provinces have dealt with the decline in federal cash and tax-point transfer payments. As a result of the massive cuts in federal transfer, Ontario lost over $18 billion of the total, overall reduction of $49 billion experienced by all provinces between 1982 and 1994. In February of 1995, the federal government announced its intention to phase out the PSE portion of the cash transfers to the provinces, which to Ontario meant the loss of $700 million over three years. The size of this reduction was equivalent to the 1994-1995 combined budgets of York University and the Universities of Ottawa and Toronto.

**General tuition fee trends, Ontario, 1920 to 1995**

In terms of changes in fees in Ontario, which in part reflect these federal reductions, the average increase in tuition fee rates in the province over the last five years was 14.2 per cent, in comparison to 9.1 per cent for the rest of Canada (McLeans' Survey, 1998). Fees increased at a faster rate in Ontario every year from 1995 to 1998. There was also substantial variation in the rates of increase at the institutional level, reflecting the "partial" deregulation introduced by the Ontario government, which delegated the setting of fees for graduate and professional programs to institutional governing boards. However, these changes took place at a relatively fast clip, in contrast to the fluctuations in fees during the period of 1920-1989.
Over the past 80 years governments have used tuition fees to help fund increases in demand. The province’s policy on accessibility – which has not changed despite shifts in financing arrangements – is to provide every academically qualified student with a place in a university or college, though not necessarily the student’s first choice (Lang et al 2000; Daring et al 1989). From the 1920s to the 1950s, provincial governments chose to increase the amount of student aid available rather than reduce tuition or increase institutional operating support. From 1940 to 1945, the concern about the specific allocation of student aid focused on the provision of funds to veterans. As the veterans graduated, federal grants to universities decreased and tuition fees began to increase in importance in terms of the percentage they represented to overall university income. From 1951 until 1981, tuition fees declined fairly steadily as a percentage of university operating income, declining more slowly between 1976 and 1981 (Stager 1989).

From 1950 to 1965 tuition fees doubled in real terms, and enrolment in Ontario universities rose by 50 per cent in the 1950s and almost doubled in the 1960s. The primary purposes of such tuition increases in Ontario were meant to accommodate the substantial increase in demand.

From the 1950s to the 1970s, as the following table indicates, tuition fee revenue as a proportion of universities’ overall revenue increased in Ontario and throughout Canada, falling from approximately 30 to 40 per cent of overall revenue to 10 to 15 per cent by the middle of the 1970s. Stager suggests that this increased share came in part from the higher tuition fees paid by foreign students, most of whom enrolled in Ontario’s institutions (Stager 1989).

Throughout this period, policy makers made no real attempt to formulate tuition fees at a level that reflected actual costs, and variations in fees charged for different programs – arts and science, engineering and medicine – diminished over time (ibid.). From 1929 until 1965, the fee
for engineering was substantially higher than the arts fee, ranging from about one-third more than then arts fee to in excess of 100 per cent more. During the decade of the 1980s, the difference narrowed to a value of 10 per cent of the arts fee. Beginning in about 1929, tuition fees for the medical program were the same as for engineering but increased during the Second World War. Further differentiation appeared during the period between 1982 and 1988, when medicine fees were 27 per cent higher than the arts fee (ibid.). These changes in tuition fees took place over relatively long periods and were introduced in an extremely gradual manner.

Contraction and death by a thousand cuts – to 1995

Prior to the mid-1990s, changes in funding patterns were cumulative rather than sudden, the result of small year-over-year tuition increases and the decreasing value of stable government grants in light of periods of climbing participation rates. Further, whatever policy and funding changes were made during the decades of the 1970s and 1980s in Ontario were minimal, occurring at the edges of the system, with no challenges to its basic structure (Jones 1991). This period of relative stagnation came after a rather brief structural and financial revolution in the 1960s, during which time new universities were opened and the system of colleges of applied arts and technology were created. This flurry of activity was designed to accommodate the tremendous expansion of demand for post-secondary education – and reflected both the public’s and the government’s confidence in the post-secondary education enterprise. During this time, the mechanisms erected to manage the system during this ‘revolution’ were designed to encourage and support growth (ibid.). By 1977 growth at this point gave way to retrenchment strategies, and “modest modifications” combined with a resistance on the part of governments to take “bold, decisive action” meant either zero growth in government contributions, or negative rates in the system when measured on the basis of grants per FTE (Jones 1991; Skolnik 1987).
A relatively conservative approach to change during the decade of the 1980s was mirrored in the manner in which Ontario's retrenchment strategy was carried out, despite the prevalence of "crisis" literature (Skolnik 1987). Gradual, across-the-board cuts were the order of the day. With respect to the relationship between tuition fees and the operating grant during the 1980s, it had been the practice to replace declines in provincial operating support with, more or less, tuition increases (COU 1996). However, while the total funds available from government formula grant and tuition remained stable relative to inflation, year-over-year increases in enrolment meant that there were fewer funds available on an FTE basis. In fact, even at the beginning of the decade, inter-provincial comparisons revealed that Ontario ranked last in terms of funding available per FTE (Skolnik 1987). The increase in tuition fee revenue came mostly from expanding enrolment rather than large yearly increases, which were kept fairly modest in order to protect accessibility. The government permitted those small and steady yearly increases in tacit recognition that the system needed more funds, though those new moneys were necessarily private in origin. It has been suggested that the government intended the funds would be invested in quality improvements rather than funding the expansion of capacity (Lang et al 2000). However, beginning in 1989, tuition fees began their ascent: From 1989 through the next decade, annual increases ranged from 7.5 per cent to 20 per cent, depending on the program (COU 1999b).

In relation to other areas of government spending, universities do not appear to have been singled out for major reductions. Other portfolios experienced reductions equal in magnitude, with the exception of the spending categories of community and social services, servicing the provincial debt, and, to a lesser degree, health care (Skolnik 1984), as is evident in Table 7.3 at the end of this chapter.
Commissions created during this same time, which were charged broadly with investigating how best the available level of funds would be used in the sector, held some promise for change. However, the province delivered little in the way of radical reform, and the reports were largely ignored (Skolnik 1987). Though many stakeholders agreed that the “death by a thousand cuts” approach to university funding policy was taking its toll, little change actually took place. Two commissions into university funding were called, one in 1981 and another only three years later, in 1984. The Report of the Committee on the Future Role of Universities in Ontario of 1981 was charged with advising on how “the publicly endorsed objectives of the universities could be reconciled with the publicly approved levels of funding” (ibid. 160-161). Interestingly, it contained two recommendations, both of which would have presented the government with truly Herculean tasks. The committee suggested that the province either fund the universities at the levels that they felt they needed, or centralize the system under one governing board and a more consolidated administrative centre, as in the case of the California system (ibid.). With the government opting to implement none of the recommendations in the 1981 report, the Bovey Commission (Commission on the Future Development of the Universities of Ontario) suggested major alterations to the funding formula that at that time encouraged growth in some areas at the expense of others (ibid.). Skolnik argues that the changes to the formula recommended would have served to expand research and development (R &D) infrastructure, reflecting what would have been a growing preoccupation with the university’s role in regional and national economic growth.

The Liberal government took office in 1985, and had promised – as is normally the case with opposition parties – to increase the funds available to the university and college sector. The newly elected government came through with a one-time-only grant of $50 million on top of the
formula grant, earmarked for library acquisitions, infrastructure and “faculty renewal.” They also had system rationalization on their minds. However, what constituted “bold decisive action” in the government’s own view resembled more what Jones would have grouped under “minor modifications.” Rationalizing the university system, for example, came in the form of an attempt to merge the Ontario Institute of Studies in Education (then an autonomous institution) with the University of Toronto. The merger never happened. But where the Liberals failed, the New Democrats, who took power unexpectedly in 1990, succeeded in 1994 and implemented in 1997.

There were, however, some important changes made to the province’s funding formula, which was first established in 1967. The formula would not be used to determine adequate levels of support, but rather make transparent how the Ministry would allocate the grant among institutions:

The use of the formula for such distribution presupposes that the amount available will be sufficient, together with other major sources of income, to enable the university system to continue to function to at least its present level of excellence... These comments are made in order to emphasize that while a formula will ensure equitable distribution of moneys, it will not, in itself, ensure an adequate level of support (Darling et al 1989: 575).

The formula was introduced to eliminate the annual negotiations between the government and individual universities, in which institutions submitted yearly requests, a messy, unhappy situation for both parties. Universities in particular felt that this annual process and the government examination that it involved of its budgets was impinging on their autonomy.

The formula was based on student enrolment, weighted differently by program categories and represented in Basic Income Units. For example, the undergraduate arts and science student was worth one BIU, while students enrolled in doctoral programs represented six BIUs. The weighted enrolment is used to allocate the operating grant which encompasses both the
government grant and the tuition fees universities are permitted to charge. Thus the formula is
the primary vehicle by which the province controls the fees charged by universities
(Stenton 1992; Darling et al 1989).

In 1973, the “slip year” was introduced, which mean that the grant for “year two” was
determined by enrolment levels in “year one.” According to Darling et al (1989: 576), this had
two consequences of note: that the “BIU value was transformed from determinant of the total
government support to the derived value in an equation in which both enrolment and the total
level of government support were known.” And since the formula did not determine the level of
government support but rather its distribution among universities, it served to induce competition
among universities for higher enrolment (ibid.). However, further changes in 1976 and 1987
served to dampen the effects of year-over-year changes in enrolment levels: A moving average of
five years was introduced, as well as a 3 per cent funding corridor, in which grants were
unaffecte by enrolment increases or decreases of up to that amount.

Prelude to Change: Ontario Higher Education Funding from 1990 to 1995

With the election of the New Democratic Party in 1990, and a severe economic recession
on the horizon, the general pattern of replacing declining grant income with tuition income ceased
in 1993. The year of 1992/1993 was somewhat of a blip, as universities saw their operating
grants increase in constant dollars (COU 1999). However, the relative symmetry in declines in
the government grant and tuition increases was lost in 1993 – tuition increased 7 per cent, and the
operating grant by 1 per cent. This was a recognition on the part of the government that
universities were in need of an infusion of money. But the NDP’s struggle with the deficit and
the major recession in Ontario meant a substantial reinvestment of public funds was not possible.
A step toward “bold, decisive action” once again made. The Premier’s office brought forward a
proposal to increase college fees by 20 per cent, and universities by 10 per cent, but Cabinet reacted to the political risks – real or perceived – of raising fees disproportionately in a sector designed to serve the needs of its working-class constituents (Lang et al 2000). It was also recognized that fee increases of any magnitude were – politically speaking – “no-winners” and that “universities were never satisfied with the increases, and the public reacted negatively to them” (ibid.).

The relative lack of change and stagnant rates of funding may also be explained by the fact that higher education was simply not regarded as a critical area of strategic investment. By the early 1990s, several observers began arguing that the trends in financing higher education were not simply facing another cyclical downturn in government support but rather a new era of reduced support that was likely to be long-lasting (Brenemen and Finney 1997). This was, in part, a result of structural changes in the way the public sector was financed, beginning with changes in federal transfer payments, as outlined above. The Canadian provinces had been experiencing structural deficits brought on largely by 1) obligations passed down from the federal government for social services; 2) growth in healthcare spending; 3) demographic changes which increased the need for more funding to be directed to K-12 needs, prison, services to the elderly; and 4) pressure to reduce taxes. Faced with these demands, politicians and policy advisors increasingly tended to view higher education spending as discretionary (ibid.).

This is not to say that Ontario governments from the mid-1980s to the mid-1990s were indifferent to the potential contribution that university research could make to the strengthening of the Ontario economy. Liberal and left-of-centre ruling parties alike promoted policies from 1985 to 1995 similar to like European policies insofar as attention was increasingly paid to building an infrastructure for a knowledge-based economy (ibid.). In fact, governments from the
1970s onward had been warned by academics and policy makers that stimulating greater investments in research and development was increasingly important to economies that wished to remain competitive in the global marketplace: Traditional industries were to be computerized and mechanized; and nanotechnology and robotic technologies would bring greater efficiencies and lower costs to the traditional industrial sectors. “Being a major source of skilled workers and innovation for these [technologies], universities were increasingly viewed as an essential component of economic development, which has sometimes moved the university’s other, social functions to the background” (Lang et al 2000: 9).

Like many other political jurisdictions around the world, Ontario would, too, seek to develop the infrastructure needed to make a successful transition to a “knowledge economy.” However, the Liberal-NDP coalition government of 1985-1987, the Liberal government of 1987-1990 and the NDP government, which enjoyed a five-year term beginning in 1990 and ending in 1995, adopted policies different from many other political jurisdictions. Due to the relative strength and buoyancy of the of the economy in the brief years of Liberal-only rule (1987 to 1990), the government felt it had some room for sampling an array of social and economic policies.

It first fell to the minority-Liberal government of David Peterson to come to terms with what was becoming a global preoccupation with the rise of global markets. In order to begin to deal with such matters, Peterson established the Premier’s Council in April 1986 with a mandate to “steer Ontario into the forefront of economic leadership and technological innovation.” The make-up of the council included, of course, the Premier (as chair), six senior cabinet ministers from trade, treasury, skills, labour, education and colleges and universities, in addition to 20 with assorted other backgrounds. Two and a half years later, the council produced Competing in the
Global Economy, which broke away from the more neo-conservative approaches to increasing competitiveness adopted by other North American jurisdictions. “Rather than viewing international competition as a threat to workers’ wages, the Premier’s Council depicted effective international competition as the key to a high-wage economic strategy and higher standard of living” (Wolfe 1999: 137). The recommendations contained in the report were considered the most comprehensive, thorough attempt at long-term planning. The bad news, however, was that the council found Ontario lagging behind in the development of its high-tech sector and in its education and training systems (Premier’s Council 1988). It also found that Ontario’s science and technology infrastructure was not sufficiently focused on industrial priorities. The report recommended paying more attention to the development of human capital, small business and industrial infrastructure in areas of science and technology. Implementation of policy was to follow a co-determination model similar to models in Europe, rather than the Anglo-American preference to submitting to market forces (Weiss 1998).

What is noteworthy about these developments and attempts to address Ontario’s place in the world in terms of its readiness for the knowledge economy is that these policies originated in the Premier’s Office or the Premier’s Council, rather than through any universities or university-related government agency, such as the Ontario Council on University Affairs. The Premier’s Council did not look to the higher education policies of other political jurisdictions, but rather to examples of “economics successes” (Lang et al 2000). The German approaches to funding basic research and to technology transfer were especially influential. Further, through contact with the Four Motors Association, which included the subnational region states of Baden-Wurtberg, Catalonia, Rhone-Alpes and Lombardy, the Liberals fine-tuned the technology transfer processes of the Centre of Excellence, and established student and faculty exchange programs with the
"Four Motors of Europe." Further, the University Research Incentive Fund (URIF) was established in 1984 "to encourage co-operative research ventures between Ontario universities and the privates sector (Ministry of Education and Training, February 1995). This co-operation would foster:

- Economic development of the province;
- New or strengthened linkages between the academic and industrial research communities;
- Transfer of technology from the universities to the private sector;
- Increased industrial access to university expertise;
- Enhanced research capacity in the universities; and
- Greater opportunities for interdisciplinary research.

Each dollar raised from the private sector was eligible for matching, and in 1994, the maximum award was $250,000.

With the New Democrats’ win in Ontario in 1990, the focus on research and development continued, as this government was determined to continue with the policies introduced by the Liberals (Lang et al 2000). Government sought to devolve responsibility for economic development onto the broadest range of actors by initiating numerous forums that encouraged stakeholder partnerships. As part of the Sectoral Partnership Fund universities and colleges were involved in wide consultations which brought together 28 universities and colleges, 22 unions and 93 industry associations. The process served to encourage a sense of partnership and industrial co-operation, and contributed to the formation and building of sectoral interests (Wolfe 1999). The NDP saw the involvement of such networks between the centres of knowledge creation and industry as well as other stakeholder groups as opportunities to foster a "collective competitiveness," in which Ontario firms within an industry could compete better on the international stage.
Established in the 1980s, the province’s centres of excellence has been the main focus of attempts to facilitate technology transfer from the universities to industry. Their mandate is to “stimulate advanced scientific research, to train and develop world class researchers and to encourage the transfer and diffusion of technology to industry” (Bell and Sadlak 1992: 237). The legally autonomous networks operate largely as ‘nodes,’ bring together scholars from a number of universities on theme-based research projects. Moreover,

Industry plays a vital role in the management and operation of each centre. Although it does not fund the research program, industry has a direct say in the allocation of research moneys and research priorities. The co-determination of the research agenda by industry, in conjunction with the emphasis on fundamental as opposed to applied research, provides industry with precompetitive research results which they can use to shape and focus their internal R&D agenda and technology development (Bell and Sadlak 1992: 237).

The NDP government regarded the centres as the most appropriate and effective vehicle for university-industry partnerships, and they were identified for an increase in funding. And though the initiative for a “supercomputer” put forward by Ontario’s universities with private sector support encountered opposition in the Provincial Treasurer’s office, it was eventually backed with some public funds.

The Liberals’ and NDP’s approaches to encouraging innovation and technology transfer were similar insofar as there was a general rejection of opening up traditional bases of industrial activity to the market. Instead various ministries worked together to identify priority areas of research, and both Liberal and NDP governments saw a positive role for government in creating an atmosphere in which Ontario manufacturing and high-tech sectors could thrive through “collective competitiveness.” The types of approaches to the development and nurturing of a
knowledge-based economy in Ontario as outlined above was to change very quickly with the election of the Progressive Conservatives.

Within six months of assuming office the PC government either cancelled or reduced nearly all of the previous governments' initiatives. In the research sector, the objective of building a high-tech region state continued, however with the use of different mechanisms and a more deliberate intent of bringing the university and industry closer together. The Centres of Excellence, whose fate was uncertain for the first two years of the PC government, were restructured and reduced from seven to four in 1997-1998, and the Minister of Economic Development indicated at the time that these centres must be more closely tied to the private sector. Unlike the Liberals and the NDP, the Conservatives have shown a marked preference for broad framework policies for stimulating economic growth such as reducing the tax and regulatory burden (Lang et al 2000). Moreover, rather than investing exclusively public moneys in targeted spending, the conservative government increased its deployment of leveraging institutional and private moneys through various tax incentives and matching programs.

The Progressive Conservative government was elected in June, 1995, on a mandate of tax cuts, debt and spending reduction, as well as the general reduction in the size of government. Their election platform, the *Common Sense Revolution*, left few surprises. The document spelled out spending cuts of $3 billion, and tax cuts of similar magnitude. Universities were warned that operating support would be greatly reduced and tuition fees would be increased to levels that represented approximately 30 per cent of the costs of education (*Common Sense Revolution*, 1995). The following chapter will review some of the policy changes introduced, most of which serve to introduce a greater measure of competition among universities and market mechanisms in the allocation of funds to Ontario universities. It will be argued that these policy and funding
initiatives comply with the features of education markets and quasi-markets as developed in Chapter III.
Table 7.1
Sources of funds
Canadian University Income By Source (per cent), Total in millions

<table>
<thead>
<tr>
<th>Year</th>
<th>Fed</th>
<th>Prov</th>
<th>Fees</th>
<th>GISM*</th>
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<tr>
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<td>21.7</td>
<td>35.3</td>
<td>28.5</td>
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<td>1976-77</td>
<td>8.4</td>
<td>74.8</td>
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<td>1984-85</td>
<td>11.6</td>
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<td>1996-97</td>
<td>8.2</td>
<td>49.1</td>
<td>18.4</td>
<td>24.3</td>
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</tbody>
</table>

Dupre, 1998
* Gifts, investment income, sales & services and miscellaneous.
* Information for charts derived from Skolnik and Rowen, 1984, page 151
Table 7.4
Provincial Grants, Student Fees and GISM as % of University Income in Five Provinces, 1984/85 to 1996/97

<table>
<thead>
<tr>
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<td>1984/85</td>
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<td>70.6</td>
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<tr>
<td>1996/97</td>
<td>39.1</td>
<td>61.8</td>
<td>41.6</td>
<td>47.4</td>
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<tr>
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<td>GISM</td>
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<td>1984/85</td>
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<td>10.9</td>
<td>9.3</td>
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<td>7.9</td>
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<td>1996/97</td>
<td>24.4</td>
<td>16.6</td>
<td>28.1</td>
<td>23.5</td>
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Dupre; 1998

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Chapter VIII
Ontario – An era of change & the advent of marketization

Ontario is Canada's largest provincial economy, generating approximately 40 percent of the country's Gross Domestic Product, with its strong manufacturing and services sector. Ontario's competitive advantages include its natural resources, a large, well-educated labour force, relatively inexpensive electrical power, and proximity to key U.S. markets. Ontario boasts of several key strengths in its economy: exports are strong, manufacturing – after some adjustment following the introduction of two trade agreements in the late 80s and early 90s – is also strong, particularly in the automotive and services sectors. Toronto is the world's fourth-largest capital market, and its stock exchange is North America's second-largest by volume and third-largest by value traded. Tourism is the province's third-largest industry, with over $10 billion in spending. With over 10 million people, Ontario has the largest population in Canada.

Ontario has traditionally voted in Progressive Conservative governments since the end of World War II. With the retirement of long-time premier William Davis, Ontarians opted for change. In 1985, the Liberals and New Democrats formed a minority government, which lasted two years (1985-1987). The Liberals won the subsequent 1987 election and called an early one in 1990. Surprising even themselves, the New Democratic Party under Bob Rae won the election and held power until 1995. Although the traditional friends of labour, Rae and the New Democratic government managed to alienate most of its traditional supporters, introducing the "Social Contract," which mandated public-sector salary concessions outside the framework of collective bargaining. It also managed to alienate Ontario's business interests and the New York bond-rating agencies for having allowed the province's debt to balloon to more than $9 billion with their first budget of 1991. Ontario was in the grip of the effects of a reduction in federal
transfers, an increase in the provincial welfare caseload, a decline in income tax revenue stemming from the immediate impact of free trade and high interest rates. Ontario returned the Tories to power on the promise of spending and tax cuts.

Once elected, the Tory government proceeded to reorganize local government, consolidate control over elementary and secondary school and delegate other social services to regional government, in addition to cutting social spending and corporate and personal income taxes. In addition, the province of Ontario is undergoing a process of transformation “from heartland to region state” (Courchene and Telmer 1998), embodied in a number of policy and fiscal changes – both internal and external – that have recast the province’s previous role as most privileged province in the Canadian federation to a more self-interested, semi-independent nation-state. From the post-World War II period through to the mid-1990s, its status as Canadian heartland are captured in a set of “stylized facts” which ensured that the province enjoyed privileged status with respect to its position in the federation (Courchene and Telmer 1998:11):

1) Due to the nature of the balance of political and economic power in the immediate post-World War II period, Ontario enjoyed federal policies favourable to its ability to maintain that status;

2) That the exercise of federal instruments of economic stabilization was carried out with primarily Ontario’s interest in mind;

3) That by virtue of its favoured status, the province could be counted on as a proponent of a strong central government; and,

4) That the province’s citizens first and foremost – more than the residents of any other region in Canada – directed “their attention and loyalties toward the federal government rather than the provincial government.”
With the election of the Tory government, the provincial government of Ontario turned its attention in different directions—both inward and outward: inward of terms of crafting social and industrial policy as if it were an independent state, and outward in the sense that many of its policies are intended to increase its own position of competitiveness in the global—as opposed to the Canadian—economy.

Associated with this key thrust is a shift toward markets (downsizing, privatizing, deregulation) and towards enterprise at both the business and individual level. The broad catalysts for all of this were two-fold— at the internal level, a reaction to the deemed excesses on the debt/deficit, tax and redistributional fronts triggered by the Peterson/Rae eras, and, that the external level, a buying into the implications and irreversibilities ushered in by globalization and the knowledge/information revolution (Courchene and Telmer 1998: 213-214).

In their insightful study of Ontario’s reorientation of Ontario as city- or nation-state, the writers further note that though spending cuts have in part reduced the overall size of government, the province has assumed a strong interest in the design features of a number of policies of which the federal government has previously been the exclusive architect, such as the Canada Pension Plan and Employment Insurance and training (ibid.). Though it is not clear from Courchene and Telmer’s analysis whether or not the rise of regional politics—in Quebec and Western Canada specifically—is responsible in part for the new Ontario posturing, they nonetheless argue that Ontario has begun to behave as a nation-state. Nor are the effects of changes in Canadian fiscal federalism weighted for their effects on Ontario’s emergence as a nation-state. Nor is much of a role accorded the Free Trade Agreement for the changes they describe. Undoubtedly, the trends they have identified are due to a combination of forces, and their description of those trends is entirely consistent with what Cameron and Stein term the movement of political control “up, down and away from the nation state” (2000: S16).
Against this backdrop, the Ontario Tories have pursued policies in university finance which deem any stakeholder attempts to appeal to 'national averages' a wasted effort. With change — and 'revolution' — in the direction of greater competitiveness so prominently on the Progressive Conservatives' agenda, a review of post-secondary education was established. The review produced a vision of stakeholder wishes (excluding, of course, those of students) within the reality of fiscal constraint and the emerging emphasis on what Couchene and Telmer noted as markets and its related processes of downsizing, privatization and deregulation.

To inaugurate the 'revolution' in higher education, the provincial government commissioned the "Smith Panel" (Excellence, Accessibility, Accountability: The Report of the advisory panel on future directions for postsecondary education) to conduct a review both within a carefully defined framework provided by the government. Among the areas evaluated for reform were the balance between government grants and tuition fees; the design of student aid programs; and the capacity for the establishment of new, private institutions (Discussion Paper on the Future of Postsecondary Education in Ontario 1996). It was the first comprehensive look at policy changes that were to be introduced by the Progressive Conservative government. I will not attempt to review the Report in its entirety, but rather some features that are germane to this thesis.

Though the authors of the report found that the "basic structure of Ontario's postsecondary sector is sound," they also argued that "without significant change in the way the sector is evolving and the way it is resourced, its quality and accessibility will be undermined, along with institutional capability to deliver the broad range of programs and the high calibre of research that will be needed in the future" (p. 2). But there were four basic reform goals: 1) a more differentiated environment for post-secondary education, in which individual universities
can develop their particular strengths; 2) a less regulated environment with appropriate mechanisms for accountability; 3) the development of appropriate performance assessment mechanisms; and 4) an increase the level of provincial government support.

Based on the understanding of marketization and the creation of quasi markets developed in Chapter III, the overall vision of the Smith report can be said to espouse the introduction of, and greater reliance on, market, or quasi-market elements, through the combination of less regulation, the introduction of appropriate mechanisms and accountability producing a more differentiated system of institutions. Of course, the Smith Report was astute enough to know that even in this more market-like environment, governments could still increase funding. Its first recommendation then was to increase the level of support to “be comparable to the average of other Canadian provinces and be reasonably in line with government support of major public university and college systems in the United States” (p. 5).

It is in this less regulated environment, the panel argued, that the resources currently available to Ontario’s higher education institutions could better be allocated. “Along with expanded opportunities for greater choice, the governing boards of universities and colleges must become more responsible and more accountable for decisions affecting individual institutions” (Smith Report 1997; 3). With respect to tuition fees, greater discretion was proposed for institutions to set tuition fees. Specifically, the panel recommended that:

It would be more helpful to develop an approach [to setting fees] that is characterized by institutions flexibility to determine fees, program by program, based on the analysis of the value of programs in a competitive market, and of the revenue that is needed to provide a high-quality learning experience for students (ibid. 32).

Thus, the panel however, qualified its notion of fee deregulation. It recommended that the provincial government recognize an upper limit on tuition fee in its assessment of support through
the provincial loan system, the Ontario Student Assistance Program. Those universities that charge above that established threshold should be required to allocate greater institutional resources to student assistance.

The Smith report cited three potential avenues for tuition fee determination by program:

1. Tuition could represent a certain percentage of program costs.
2. Tuition fees could represent a certain percentage of institution’s operating costs.
3. Tuition fees could be directly linked to the economic benefits that students derive from their education, resulting in fees that are relatively higher in those programs for which labour market demand is strong or whose graduates can anticipate greater job security and relatively higher incomes.

As discussed in the Chapter I, income-contingent loans have long been considered a feature of market-like higher education systems. Income contingent loan systems have been discussed widely and for some time, though no jurisdiction has such a system, though Australia comes the closest through their Higher Education Contribution Scheme. The HECS, as it is known, is a pay-later system in which a student’s debt incurred during university study is paid back through the tax system. Payments begin when the graduate’s income reaches a certain level. As such, HECS qualifies as a variant of an income-contingent aid program.

Of course, in theory, income-contingent loan programs can differ quite dramatically in the degree to which they exhibit “market-like” features. Governments, if they choose, could subsidize them to an extent that the relationship between the aid program and the labour market is weakened to irrelevancy. For example, governments could cover all interest payments before graduation and until the graduate hits the income threshold; it could limit the lifetime of the loan
to five or 10 years, regardless of how a graduate performs on the labour market, as it normally the case for more conventional programs. ‘Pure’ forms if income-contingent loan systems imagine a self-financing system, in which payments made constitute a loan fund from which current students draw, though initially such programs would require a large infusion of capital from the government alone or in partnership with a private financing partner.

Moreover, in theory, the introduction (or discussion) of income-contingent loan programs is not directly related to increases in tuition fees, however they are regarded as a mechanism to assist in the leverage of private funds to expand or enhance the quality of higher education systems. They are also considered in such a light due to the fact that discussions about the possibility of introducing these types of loan schemes are often accompanied by government attempts to figure out how best to maximize tuition fee potential with a minimum of political fall-out.

Though it’s difficult to determine the particular intentions of the Smith panel, it recommended the adoption of such a program, with such features as the postponement of interest payments until after the student has graduated, or after a fixed set of years, while granting the option of repaying the loan at a faster rate (p. 7).

Noting that an increase in private support must be dramatic beside decreases in operating support, it nonetheless recommended that the government introduce tax incentives to promote both philanthropy and the “purchase of training services,” such as exempting the donation of assets from capital gains tax.

Given that the Smith Panel was requested by way of its terms of reference to gauge the potential role that private universities could play in Ontario, the Smith Report did allow for their establishment given certain conditions (p. 57). Those conditions included safeguards requiring
such institutions to have governance arrangements that would foster institutional autonomy and academic freedom; provisions that would protect students enrolled in such institutions against possible financial failure; and that quality assurance would be made in order that the Ontario university degree not be debased. (Ministerial Consent guidelines prior to a change in policy in October, 2000, allowed for the operation of out-of-province degree granting institutions, determined case by case, did not require applicants to meet Ontario standards of quality assessment.) Although it was recommended that such institutions would need to be privately financed, it allowed for students enrolled in such institutions to be eligible for OSAP, the provincial loan system, as is the case with the rather small private vocational sector in Ontario.

Other changes recommended include: a greater co-operation between universities and colleges; the establishment of a matching trust fund for new faculty hires; the creation of a research policy in Ontario and an increase in the funding for overhead costs; and the creation of an advisory body to provide research and advice to the Ministry, following the Conservatives’ abolition of the Ontario Council on University Affairs only a year prior to the release of the Smith report.

**Policies Implemented in Ontario: A move toward the market model**

Although the Conservative government opted not to restore funding levels in Ontario to the Canadian average, a number of market-like policies recommended in the Smith Report have been implemented by the Conservative government. These policies have served to foster a higher degree of competition among institutions, for government, non-government and tuition fee revenue. One of the obvious ways in which competition has been introduced is through the implementation of a number of matching programs, in which public dollars match funds raised in
the private sector. This matching mechanism for leveraging private funds has been used for program expansion, institutionally administered student aid, and research infrastructure. There is, of course, an aspect to these competitions that do not replicate a pure market scenario, which would expect the 'losers' to drop out of the competition. The student aid matching program is a case in point: Initially, $100 million was set aside for distribution to the provinces and colleges, with a time limit of 14 months to receive 'matchable' pledges. At the end of the allotted time period, universities had managed to raise approximately $250 million (of that amount U of T garnered $95 million) and the community colleges $47 million. The competition for the college sector was extended in order that they could more fully capitalize on the program. Moreover, the matching-fund program for IT training expansion did entail some degree of central planning, at which stage universities and colleges were required to submit expansion plans and essentially bid for their share of the overall increase.

Following the facets of marketization as developed in Chapter III of this thesis, and the emphasis placed on the combination of the use of market mechanisms and increased government control, two preliminary notes must be made concerning the market policies discussed below. While Ontario policies exhibit the features of marketization in *design* (i.e. the increasingly important role played by competition in securing funds), they may also be seen as simply attempts on the part of government to 'encourage' universities through the use of financial rewards to adopt government-identified priorities — in relative research emphasis, expansion in particular disciplines and student space growth. However, even those cases and policies in which the government is essentially offering financial rewards to universities for adopting government-identified priorities, the province has chosen to employ elements of market competition in allocating those rewards.

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Although not included in the policies under consideration in this thesis, it should be noted that, similar to the English experience, the government also abolished the province's intermediary body, called the Ontario Council on University Affairs in 1996. The council, comprised of government appointees, served as a buffer body between the government and institutions, providing advice directly to the Minister of Education and Training (Skolnik and Jones 1992). Like the Thatcher government before it, the Progressive Conversation Party generally viewed such bodies with a great deal of suspicion given their perceived bureaucratic and professional allegiances, and felt it leaned too far in favour of the universities. It appears unlikely, however, that unlike England, a replacement body will not be established in Ontario.

The major policy changes introduced in Ontario that will be analyzed for their market-like design features are the following:

1) Changes in tuition fee policy and regulation: While the government permitted the basic arts and science fee to increase at the discretion of the universities to 133 per cent of the formula fee, graduate programs in all areas were deregulated, as well as programs in engineering, law, medicine, dentistry, management, education (the M Ed and Ed D streams), and all other programs deemed 'professional,' including museum studies and the master's program in public health;

2) Changes in provincial allocations direct to the universities, and the increasing importance of other sources of income;

3) Information dissemination requirements, based on the assumption that markets are more 'perfect' when greater amounts of information are accessible that may inform consumer choice. In related policy, a small portion of grants (about 2 per cent) are tied to the
institution's ability to remain below certain levels in terms of the student loan default rates. There are three indicators: default, graduation and employment rates;

4) The Ontario Student Opportunities Trust Fund, intended to increase the amount of student support funds available to needy students. It was also a matching program in which the government of Ontario matched all funds raised in the private sector for student aid;

5) The Access to Opportunity Program, an initiative to 'double the pipeline' of computer science and engineering graduates. This program was conceived of by the private sector to the province, after having failed to influence the federal government on immigration policy, which put forward a proposal that the government match all funds raised by the private sector toward expanding the number of student spaces in these fields;

6) The Ontario Research and Development Challenge Fund, in which the provincial government would contribute one-third of total funds required to support initiatives that have secured private sector financing;

7) New law and policy that enable the establishment and approval of private, degree-granting institutions and programs.

Each of the policies under consideration will be examined for their market characteristics. It will be argued that though the purpose of certain policies may simply be an attempt on the part of government to assert its strategic priorities, the province nonetheless has chosen to use the forms of market allocation to achieve its public policy ends. This latter expression of marketization may be considered a government initiative to simulate markets, or quasi-markets, similar to those created in England and Australia.

Nor is this is not intended to be an exhaustive review of finance and other policy changes that have occurred in Ontario: for instance, Ross (1991), Tudiver (1999) and others have argued
that institutions are increasingly reliant on instructors working on a contract basis, which may be viewed – and quite correctly – as a practice akin to contracting out, in which the teaching services of independent, non-tenured scholars are used to reduce salary expenditures, the largest single budget item of universities. It is not, however, a provincial policy, but an institutional cost-saving device, though perhaps one that arises from changes in provincial finance policy. Another area that is not examined in this brief catalogue is that of the market in, and price-cost structure of, contract research, which is again not a provincial policy *per se* but a practice – and an institutional response – to provincial policy that has required universities to seek alternative sources of funds to augment operating and tuition fee revenue.

One more introductory note about these policies must be made. The names of many of the governments initiatives in and of themselves are interesting for their spin value. Many of these targeted initiatives are either "opportunities" or "challenges," implying in some sense that there is something exciting about reductions in operating support, which have in large measure financed these programs. The names also obscure this fact, that somehow they are new investments, and have not come at the expense of other university spending areas. Tuition fee increases, too, were regarded as "opportunities" for universities to set their own fees.

**Changes in tuition fee policy and regulation**

As promised the *Common Sense Revolution*, tuition fees were increased to more closely resemble the costs of instruction. In the first financial statement issued by the new government for the fiscal year 1996-1997, tuition fees were increased for general arts and science programs 10 per cent, with discretionary room for an additional 10 per cent increase, bringing the maximum tuition fee to $2,935 from the previous year’s figure of $2,541 (these figures do not include mandatory ancillary fees, which vary from institution to institution) (COU 1999b). This brought
the fee to 123 per cent of the formula fee, though with the discretionary increase, institutions can spread out the increase differentially across programs, as long as the institutional average does not exceed the maximum discretionary component. Further, universities are required to direct 30 per cent of the revenue from these and future increases toward institutional student aid programs.

Over the next three years institutions would be granted additional flexibility, to the extent that institutions would be permitted to charge 149 per cent of the formula fee by 1998 (COU 1999b). These developments were hardly surprising. While the province avowed quite early on to grant greater discretion in setting fee levels to the institutions themselves, as recommended in the Smith Report, what was noteworthy were the two years (1997-98 and 1998-99) during which time there were zero increases (please see table 8.1 at the conclusion of this chapter). Instead, the government chose to increase the maximum discretionary component of tuition fees rather than the formula fee – hence "re-regulation" and not "deregulation." Again, this was no surprise, but the tuition fee debate in the newspapers became more animated than it had been in many years, and this move was potentially an effort to remove some of the heat associated with the habitually negative headlines. Therefore, while the government announced no new mandatory tuition increases for any programs, universities would have to account publicly for their opting to raise them.

Table 8.2 illustrates the system effects of increasing the discretionary component of the tuition fee. The tuition fee schedule for the University of Toronto – chosen for the diversity of its prices and also includes mandatory non-academic fees – shows the effects of ‘partial deregulation,’ which allowed institutions to set the fees for professional and second-entry level programs. The differentiation in fees is at its highest level in a century of tuition fee policy: For
example, dentistry students pay roughly 300 per cent ($12,000) of the arts and science fee ($3,951). Law students pay approximately 253 per cent (or $10,000) of the arts and science fee, while the medicine fee is about 343 per cent (or $14,000) of the arts fee. It now also costs more to do an undergraduate engineering degree ($5,250) than it does a PhD ($4,701). Table 8.2 reflects the institution’s attempt at providing students with some stability, providing an idea of future fee increases to currently enrolled and newly enrolled students. Although these fees do not reflect actual program costs, there is obviously some attempt to set tuition fees in a way that reflects the future income-earning potential of graduates. It is in this way that the labour market – or rather a graduate’s expected performance – insinuates itself in up-front tuition fee charges.

Table 8.3 illustrates the initial workings of marketization, in which institutions begin to show an increasing differentiation among them in the fees they charge for the same programs. McMaster’s program in medicine has long been regarded as vanguard, and attracts students from a variety of backgrounds. While both the fee for engineering and the still-regulated arts and science fee seem to hover at roughly the same level, for medicine, there is a $4,500 difference per year between the lowest fee (Ottawa at $8,500) and the highest fee (at Toronto, $14,000). There is also a considerable difference (almost 100 per cent) between the law fee for the lowest ($5,500, Ottawa) and the highest (Toronto, $10,000).

There are a variety of rationales for adopting a higher tuition fee regime. It has been argued that lower tuition fees do not serve the goals of equity, serving to provide the middle and upper-middle classes with an “unfair subsidy,” given that they are still understood to be the primary consumers of higher education. Introducing higher fees is also, as can be argued in the case of Australia, a way of expanding the system at a lower unit cost to the state or the public.

Charging user fees for services which were previously funded by the state are thought to impose a
greater discipline in the rate at which those services are consumed (Hatry 1983). Yet another reason for raising tuition fees, and for introducing greater variation in the fees charged from program to program, is to bring price and cost into greater alignment, considered a condition of a functioning market. Although it can be argued, as Brenneman (1981) does, that price and cost are at such odds in higher education that a ‘real’ market in education is impossible.

Nevertheless, increasing tuition to more accurately reflect costs must be seen as a partial move toward market forms. Although this thesis attempts no gauge of actual operating costs and their growth over a period in which the expansion of the research enterprise has served to increase institutional expenditures overall, tuition fees were increased at a rate which did not keep up with rising costs. What is perhaps of most interest in these developments in tuition fee policy is the attempt to differentiate fees on the basis of program and the differential rewards on the labour market. In Ontario, as evident in the tuition figures provided, fees for law, medicine and dentistry were increased substantially on the basis of the fact that the different prices (in comparison to a master’s degree in arts, or a graduate degree in museum studies) purchases a different product in the form of future income-earning potential. Though Brenneman’s (1981) market qualifications are true, such trends can be viewed as a shift toward the market, even if its operation is far from ‘perfect.’

Provincial operating grants

The Progressive Conservative government started its new relationship with the university sector by reducing its operating support by a little more than 15 per cent (or $280 million) to $1.549 billion, as promised in the Progressive Conservative government’s election platform, the Common Sense Revolution. It also substantially reduced the operating budgets for the MUSH
sector (municipalities, universities, schools and hospitals) on the whole at roughly the same level. In 1987-88, transfers to universities represented 4.2 per cent of government spending, dropping to 2.6 per cent in 1998-99 (COU 1999a).

From 1988-89 to 1992-1993, provincial operating grants – which includes the basic operating grant based on weighted enrolment – increased in small amounts in terms of both the total amount allocated to universities and the amount available per full-time equivalent (FTE) (COU 1999a), as evident in Table 8.5 at the end of this chapter. With the recession in full swing in Ontario, the NDP government reduced the operating grant in 1993 (after a big increase in 1992) and increased tuition at a rate which did not keep up with the decline in the grant. The grant dropped for the year of 1996-97 from $1.82 million to $1.55 million, reflecting the significant reduction of a little more than 15 per cent. In the same year, tuition fee revenue for all universities rose from $744,393 to $846,891. Although these fee increases were sizeable – some as large as 20 per cent depending on the program – the mandated government fee increase was once again insufficient to make up for the reduction in the government grant.

Of notable importance is the reversal of that trend. In the province of Ontario, operating grants actually began increasing in 1998 for the first time since the ‘blip’ year of 1993-1994, due in large measure to the introduction of a number of new funding earmarked initiatives including the Fair Funding Grant (though the recipients were the newer universities), the Access to Opportunities Program (discussed in detail below), the Graduate Scholarships in Science and Technology program, the Learning Opportunities Task Force, and the Research Excellence Awards (COU 1999a). In 1998-1999, grants increased to $1.61 billion from $1.59 (while revenue from tuition fees hit the $1 billion level), to $1.66 billion in 2000-2001. This most recent increase of $50 million was attributable in whole to the introduction of new, earmarked funds –
approximately one-third for each of enrolment growth, a new Performance Fund, tied to an institution's graduation and student completion rates, and further ATOP and Fair Funding grants. The grant allocated through the funding formula, or the basic grant, did not grow in any of those years.

Consequently, other sources of income are becoming increasingly important to Ontario universities. Over the past decade, universities have increased the value of their donations by 73 per cent. In 1987-88, universities raised $114 million in donated funds and $105 million in non-government grants and contracts. In 1996, donations totalled $254 million and non-government grants $323 million. Although the increase in donations is rather sizeable in total dollars, the majority of such funds are raised with the understanding that they will be endowed and that only a portion of the income generated by the endowment will be spent. In this way, the revenue category of investment income is more telling, as such income is available for spending. For example, donations earmarked to support a faculty chair are invested, with a portion spent on the faculty's salary and in some cases includes a small budget for research carried out by the faculty member. Thus only the income generated by the endowed chair fund has the capacity to relieve some of the pressures of the operating costs.

Further, the category of 'sales and services' experienced some growth over a 10-year period, although it dropped twice in rather unexpected years. After increasing every year from 1988-89 it reached its peak in 1994-95, and then declined two years in a row. As of 1997-98, it had reached its previous peak (COU 1999b). Income from investment has become increasingly important as a source of revenue, and experienced the most dramatic growth in the years since 1995-96. This is most probably due in part to the increasing amount of income available for expenditure from endowment funds generated by institutional fund raising efforts.
As explored in Chapter II of this thesis, the process of marketization has often been associated – more or less coincidentally – with a decline in government allocations in the form of block grants, over which universities have a fair amount of allocative control, and increases in other sources of revenue. And although the marketization experience may involve a decline in government support – whether it be in real terms or in relation to the increase in revenue from other sources – it is not its defining feature. It is, rather, the manner in which governments deliver funds, including introducing more competitive mechanisms for its allocation, or simply attaching strings to the use of funds. As the recent history of Ontario illustrates, support delivered through the funding formula declined, and then levelled off, while earmarked funds and other one-time-only disbursements increased. This has served to increase the overall provincial operating grant in two of the five years under consideration.

As a proportion of overall income, as illustrated in the previous chapter using Dupre’s figures, provincial government contributions have fallen quite substantially, due to both decreases in provincial operating support and its position relative to the increase in other sources of funds, including tuition and investment income. In 1989, government grants accounted for almost 56 per cent of total revenue, dropping to 49 per cent in 1993-94 and to 39 per cent in 1997-98. Over the same period, tuition accounted for 17 per cent of university revenue in 1988-89, increasing to almost 22 per cent in 1993-94, and to almost 29 per cent in 1997-98, reflecting the increases and the policy of partial deregulation discussed above.

The Ontario Student Opportunity Trust Fund (OSOTF)

The OSOTF initiative was announced in the budget speech in May of 1996 by the minister of finance. Each dollar raised by the colleges and universities within a specified time period
would qualify for matching funds from the province. The government’s stated purpose for mounting this program was to encourage private sector investments, from companies and individuals, to ‘invest’ in support for “academically qualified individuals who for financial reasons would not otherwise be able to attend college or university” (Guidelines for Ontario Student Opportunity Trust Funds, August 1996). All cash donations designated for endowed student support committed between May 1996 and March 1997 and paid by March 1999 would qualify for the one-to-one match. The funds were originally, as evident from the Guidelines, meant to be entirely needs-based, but at some universities merit was added as a criterion to student eligibility. When the program was announced, $100 million was set aside for distribution to the provinces and colleges, however at the end of the allotted time period, universities had managed to raise approximately $254 million (of that amount U of T garnered $95 million) and the community colleges $47 million (for the distribution of OSOTF funds, please see Table 8.6).

The OSOTF and the Access to Opportunities Program share some similarities but there are important differences. First, the use of the matching mechanism is their obvious point of similarity, and for the most part this initiative served the purpose of directing institutional efforts to increase their student aid funds. Further, it had some implications for the Ontario Student Assistance Plan, as awards over $500 had to be declared on OSAP applications, thereby decreasing the level of loan entitlements. It was, therefore, somewhat of an attempt to shuffle costs and potentially reduce them over the long-term.

One of the important differences in terms of its relevance to marketization is ultimately the absence of a cap on the OSOTF initiative, or the irrelevance of the original one. As mentioned above, ATOP began with what essentially was a bidding process for a share of total expansion, overseen by the government. There was, therefore, a degree of central planning
involved. OSOTF had no such initial planning stage. This meant one university's (and college's) success had greater potential to translate into another one's failure, which is in fact an intended consequence of market competition. After all, the purpose of competition is to make some sort of comparative assessment.

The manner in which the market allocated student aid endowment funds is noteworthy, which is represented in Table 8.6 at the end of this chapter. Table 8.6 is essentially a comparison of the percentage of funds raised by institution, and their share of provincial enrolment, which will be considered the institution's share if it had been distributed based on FTE enrolment. (It should also be noted that the market-like distribution of funds under the program does not mirror the universities' respective shares of OSAP-dependent students.) The amount raised by four universities mirror very closely their share of provincial enrolment (Laurentian, Nipissing, Trent and York). Six universities out of 18 surpassed their share, though in four cases it was by extremely marginal amounts (Guelph, Hearst, McMaster, Queen's, York and Toronto). The University of Toronto raised 37 per cent (or $95 million) of the total, while enrolling 17 per cent of the province's university students. Queen's University managed the second best result, raising almost 12 per cent of total funds while enrolling only 5.7 per cent of Ontario's university students. It could be argued that these institutions had a competitive advantage at the time, given both were in the midst of major fund-raising campaigns. Toronto had still another advantage to offer donors: raising scholarship funds through the campaign had already been identified as an institutional priority, and the institution had established its own fund which was used to match donations. Thus it was able to offer an additional dollar match to the OSOTF program, allowing them to build a total OSOTF endowment of $285 million.
The Ontario Research and Development Challenge Fund and other matching schemes

The provincial government established the ORDCF in 1997, which would distribute an estimated $500 million over 10 years to centres of research housed by universities which had secured private-sector funding. This program replaced the University Research Incentive Fund, though the new initiative broadened the criteria for eligibility by extending funding opportunities to the broader public sector, and covered more than just capital costs. The fund operates on a three-way matching principle: for approved projects the government contributes one-third of the costs, while institutions and private sector partners cover the balance on an equal basis. The goals of the ORDCF are similar to those of the National Centres of Excellence program, though the latter is fully funded by the federal government. The objectives of the fund are to:

1) Support job creation and economic growth;
2) Promote world-class research of interest to the private sector;
3) Encourage more collaboration between the private sector and research institutions;
4) Improve Ontario’s ability to attract and keep world-class researchers and skilled technicians, and conduct state of the art research, and
5) Help Ontario universities and other research institutes compete for funding from the Canada Foundation for Innovation and other federal research programs (Ontario Challenge Fund Overview, p. 2).

Those institutions eligible for the funds include universities, hospitals, not-for-profit organizations affiliated with a university or hospital, the province’s colleges of applied arts and technology, the Ontario centres of excellence, or consortia involving a membership combination of these institutions (ibid.). Project types eligible for funding under the ORDCF include those that have the capacity for technology transfer; equipment and facilities, including renovation of existing space or new space; the development of databases; or salaries and benefits, including
endowed chairs, and funding for students involved in the research. Allocation of funds is determined on a competitive basis, and in some cases the ORDCF will seek the opinions of experts in the particular field.

The ORDCF is funded out of a variety of ministries and government agencies, including the Ministries of Energy, Science and Technology, Training, Colleges and Universities, Economic Development and Trade, Finance and Agriculture, Food and Rural Affairs, and the Ontario Jobs and Investment Board.

Given the ministries involved and the initiative’s stated objections, the fund is intended as a mechanism by which strategic investments are made in the area of applied research with strong market application, particularly in the area of technology. Some of the successful programs that have attracted support from the ORDCF include medical research for the detection and treatment of cancer and heart disease; new media research at Sheridan College; and technology enterprise management at the Schlegel Centre for Entrepreneurial Studies at Wilfred Laurier University. Perhaps the most intriguing grant – especially for Ontario wine drinkers – is the $1.5 million grant to Brock University’s Cool Climate Oenology and Viticulture Institute. The Institute had attracted $3.7 million in private-sector funding, as well as a $1.5 million grant from Canada Foundation for Innovation. According to a Ministry of Energy, Science and Technology press statement, “Ontario wines have achieved international distinction. Provincial investments in research at Brock University will help Ontario’s wine industry gain a greater share of domestic and international markets” (April 14, 2000). The Institute’s work focused on the development of processes to genetically improve wine yeasts and viticulture practices, “such as leaf removal, spacing and irrigation” (ibid.)
Another project to attract ORDCF support is Sheridan’s Centre for Animation and Emerging Technologies. Sheridan College has by now come to be a highly regarded centre for digital animation, with impressive placement rates for its graduates in the growing industry. The government contributed $4.6 million to this project through the fund, with the balance from private companies Cisco Systems and Williams Communications. An additional centre for technology studies that had secured funding is Wilfred Laurier’s Schnegel Centre for Entrepreneurial Studies, for an endowed chair in the management of technology enterprises. The grant matches the contributions from the Schnegel family of $2 million and the university’s own commitment.

Despite Ontario’s emerging status as a ‘breakaway’ province, there is a measure of convergence with Ottawa on the nature and design of initiatives intended to stimulate research deemed advantageous and helpful to Ontario’s – and Canada’s – competitiveness position in the global economy. The federal Canada Foundation for Innovation is a complementary funding program to which Ontario universities have access, sharing many of the same goals, such as facilitating technology transfer, fostering innovation, and helping retain Canadian researchers, serving to focus investment in strategic areas of research. While the ORDCF supports predominantly technology and scientific research, the CFI purports to fund research critical to the success of the Canadian economy, and includes projects in the humanities and social sciences.

The CFI has a budget of $3.15 billion, invested “in partnership with the institutions and their funding partners from the public, private and voluntary sectors” (About the CFI, p. 1). The public share of the projects’ cost is roughly 40 per cent, and eligible institutions include recognized research institutes, colleges and universities. The fund allocates support through three initiatives, although two more are to be added in 2001. The Innovation Fund aims to strengthen
institutions' research infrastructure, the New Opportunities Fund helps institutions attract new faculty members through infrastructure support, and the Canada Research Chairs program is designed to retain mid-career scholars in Canada.

Ontario has done well by the fund, partly a function of the number of universities and colleges in the province and the concentration of highly regarded health sciences research centres. Since the CFI was established in 1997, Ontario has attracted 402 grants with a value of $306 million, substantially ahead of the country's other three other large and well-regarded provinces in terms of research profile: Quebec secured 300 grants or $228 million in funding, British Columbia 128 or $109 million in funding and Alberta 110 or $58 million in funding.

With respect to the Canada Research Chairs program, Ontario has also done well, largely due to the fact that the chair allocation is determined by the institutions' shares of funding council grants, and thus serves to strengthen already recognized centres of research activity. Of the 85 chairs established at Ontario universities, the University of Toronto has attracted 39. That number includes two in sociology, one in the department of classics for a scholar in the "dead languages," and one in literature. The remainder are concentrated in biology, including biotechnology, medicine and the health sciences, engineering and chemistry. (Compare this to the University of Toronto's student enrolment ratio in science and the arts of roughly 55 to 45, versus the 4:1 ratio of the distribution of the chairs.) An additional federal research program is available that employs a competitive bidding process to identify projects of federal priority still in operation is the National Centres of Excellence (NCE), mentioned in the previous chapter of this thesis. The NCE programs operates in conjunction with the three granting agencies and one federal agency – the Canadian Institutes of Health Research which replaced the former Medical Research Council in 2000, the Natural Sciences and Engineering Research Council, the Social
Sciences and Humanities Research Council, as well as Industry Canada. Operating on 100 per cent government funding, applicants tender proposals involving a consortia of public and private sector parties, and chosen centres were funded for a seven-year period. The number of networks in operation as of 2000 was 18, one-third of which were located in Ontario, three at the University of Toronto. The centres include those in robotics, intelligence systems and micro-electronics, pulp and forestry research, health research, engineering, and education and technology. The most recently approved networks are the Automobile of the 21st Century, Genomics Technologies and Society; Meeting Environmental Challenges for Clean Water, and Early Child Development and its Impact on Society (government statement, February 2001), bringing the total to 22.

Collectively, these initiatives possess two recurrent themes of marketization: the increasing reliance on public funds to leverage private sources of support in the name of strategic investment, and investing in areas of national economic importance. Universities are increasingly competing for these funds, and in the case of the Canada Research Chairs, pre-existing centres of excellence are able to increase their lead on other universities, further exacerbating the relative strengths among institutions.

One further observation made regarding the matching principle should be noted. With the exception of two of the three federal research programs discussed above, the ORDCF and the Canada Foundation for Innovation require institutions themselves to commit funds. In other words, the programs are a mechanism that enables the government to direct university spending in research ventures the government deems critical to economic growth. At the same time, the requirement that institutions seek matching funds from the private sector ensures that industrial ‘approval’ for the research has been obtained, thus ensuring engagement with the market.
The Access to Opportunities Program (ATOP)

In its 1998 budget, the provincial government pledged $150 million – later increased to $228 million – to universities and colleges in order to induce them to double the number of spaces in information technology (IT) programs (electrical and computer engineering and computer science) in Ontario colleges and universities. This program was proposed by Ontario-based, Canadian IT companies to Ontario in its matching-fund form after the industry's failure to influence federal immigration policy, in the direction of facilitating the entry of greater numbers of skilled foreign-born IT workers.

The $228 million ATOP fund is allocated among universities using two main criteria: 1) a university's share would be based on its share of IT programs enrolment, and 2) that universities successfully raise the equivalent of their matching dollar share from the private sector before April 1999. In what could be considered a rather dubious form of praise, the then executive director of CATA issued the following statement:

...normally such a program would be announced and then disappear for six to 12 months while the bureaucrats worked on the details. Our hat is off to the government and its officials for working in real time, and delivering the program in less than 30 days. Never before have we seen a government as responsive to the warp speed time frames needed to keep pace with the technology community. This will allow the post-secondary institutions to dramatically increase their enrolments this fall (news release, May 1998).³

All Ontario universities offering such programs, with the exceptions at the time of Nipissing and Algoma, opted to participate. Though the University of Waterloo – Ontario's largest producer of IT graduates – initially stated it would not participate due to the challenges doubling enrolment

³ In an industry that made 23-year-olds millionaires and fueled tremendous gains in the stock market in "warp speed," equally quickly have technology stocks plummeted. On Monday March 12, 2001, technology-fueled Nasdaq closed at its lowest level in 27 months, down 61 per cent, eclipsing its previously biggest fall of 60 per cent in 1973.
would pose to the quality of its programs; it has since opted in\textsuperscript{4} and Algoma introduced a new one-year program in computer science.

This one-time-only sum of $228 million was designed to allow universities to expand their physical and building capacity required to accommodate the increase of precisely 100 per cent in the number of spaces (and to a lesser extent faculty), for laboratory space, teaching facilities and faculty offices. Eligibility for the program required universities to submit relatively detailed financial and academic plans to the provincial government by November, 1998. In addition, there will be a yet-to-be-determined amount of earmarked base budget funding available to hire and retain the new faculty required.

The ATOP initiative is the result of five years of lobbying on the part of two voluntary organizations representing the IT industry, CATA and the Information Technology Association of Canada – Ontario (ITAC). In recognition of the role this lobby effort played in the establishment of ATOP, April’s provincial budget – which was the vehicle for the program’s announcement – was dubbed the "Nortel Budget." Nortel took the lead in the lobby effort, but was supported by other IT companies including Bell Mobility, CAE, Calian, Cognos, Corel, Crosskeys, Cybernation, DY4, Gennum, IBM, Jetform, Mitel, Newbridge, Open Text, Simware and SHL Systemhouse. Together, this group of IT companies represents more than $12.3 billion in annual sales worldwide (\textit{Canadian Business}, June/July 1998).

In February of 1998, CATA submitted to the provincial government a detailed plan to increase the number of undergraduate IT spots in Ontario universities, premised on provincial investment that would be used to leverage financial support from the lobby group’s membership.

\textsuperscript{4} Personal communication, Martin England, member of the University of Toronto’s working group, and assistant vice-provost for strategic planning. The University of Waterloo made arrangements with the provincial government to allow it to share in the moneys available to substantially expand its IT enrolment while falling short of doubling it, because they had already increased the number of IT spaces.
In the proposal, the association estimated that Ontario would require more than 56,000 new IT workers by the year 2000, against the available pool of 14,000—a shortfall of 42,000 (CATA, 1998).

In order to stress the serious nature of the skills shortage, CATA issued a not-so-veiled threat. "Unfortunately, our members are telling us that there is now a strong likelihood that some, if not much, of this growth may be destined for offshore. While locations decisions are always complex, the availability of highly trained knowledge workers is becoming the driving force for these matters (ibid., iii)." In other words, if the government refused to invest in high-technology training at some public expense, this IT sector would seek out other manufacturing centres which possessed more readily available pools of qualified technology workers.

The government responded with an announcement to participate quickly, first allocating $150 million and then eventually allocated $228 million in the first three years of the program, leveraging an estimated $136 million from the private sector, which, like Superbuild, was short of the target for private sector contributions.

The financial rewards for success in meeting fund-raising targets through the ATOP are significant: If universities meet their fund raising and expansion targets, fees for IT engineering and computer science programs would be added to the list of deregulated tuition fees. Along with graduate and other second-entry and professional programs, universities would be able to set their own fee schedules. Thus, those universities successful in meeting private sector approval will gain access to an increasingly important revenue stream in the years to come. Thus the "private sector" as the government saw it under ATOP had two distinct components: the corporate sector and a sector comprising students and their families.
Two aspects of this program are particularly worthy of note. Despite the popularity of the principle of using public funds to leverage private support in research, and in the case of Ontario for student aid, it was the first time the principle was used for instructional programs. Moreover, given the majority of costs associated with instruction are funded through the funding formula until the inception of ATOP, is it notable that the program will continue to operate outside the formula for the time being (Lang et al 2000).

All universities and colleges met their targets, and 29,000 new spaces were created in computer science and computer and electrical engineering. But what is of more interest than the outcomes of this initiative are its design features. The interface with the market in this initiative is clear: it was in design and origin a program that both came from the employer market and relied on that market for a portion of the funds required to expand enrolment. The student demand market was not part of the fundamental impetus behind ATOP. In fact, much of the design of ATOP was aimed at inducing new student demand instead of responding to an unmet existing need. Thus ATOP at its core had a strong element of “supply side” economics in the sense that it would create a supply of student spaces that, at least initially, was greater than student demand.

Matching programs, considered a facet of the marketization experience, meet various marketization criteria: they are a way of using public funds to leverage private support and diversify the sources of support on which they are reliant; they require universities to take and argue their case to the private sector on their own merits and reputation, thereby competing with other institutions, and they help governments determine the depth and strength of private sector interests. In the case of Ontario, it was also, of course, a policy that was entirely consistent with this province’s interest in improving its competitive edge in the global market. However, it was
more than a simple attempt – though a rather successful one – on the part of governments to alter
university enrolment patterns in a way that answered the call of private-sector, labour-market
needs. But it also did this by ignoring signals from the student market and, indeed, attempting to
change those signals through government intervention. In this latter sense, this is the facet of the
program that was decidedly non-market, in that the program was highly regulated, ignored
university production functions and costs, and focused on output without any serious regard for
input. However, the initiative still required universities amongst themselves for funds in the
private sector and engage with the labour market for their information technology graduates.

One final comment on the distribution of spaces is necessary, detracting from its status as
a fully fledged marketization policy. In the lightning speed universities were required to submit
detailed financial plans, and in so doing, make a ‘bid’ for their share of total computer and
engineering expansion, including the marginal costs associated with the expansion bid. Through
these negotiations, therefore, universities were individually assigned their share of spots and thus
their fundraising targets. In other words, one institutions’ success did not translate so easily into
another one’s failure, or vice versa, antithetical to the manner in which theoretical markets would
work. Each university and college, however, had an incentive: Success in meeting fund raising
targets meant the ability to charge tuition at a level the market could bear and fund the cost
structures that the “doubling” rule forced on them. One further facet of the plan worthy of note is
that of the costs universities would take on after the allocation of the $228 million was
accomplished: Government was only taking on a portion of the continuing costs associated with
the expansion, and so in large measure the matching program would create the initial appearance
of a private sector/government cost sharing arrangement that would in reality command future
and on-going commitment on the part of the institutions.
These different facets and implications of the ATOP initiative are those that make it a sort of hybrid market-government program. Government on the one hand acted in response to a market pressure, exerted by companies who threatened to take their enterprises elsewhere. On the other hand, government tried to command or control other parts of the economy – universities as producers of a commodity in the form of educated, high-trained workers. (Furthermore, and in light of changes in the IT industry noted above, universities are taking on on-going, long-term costs associated with the expansion, but are not as able to contract in response to diminishing IT worker demand than they were able to expand in response to higher IT worker demand.) Thus, ATOP represents a mixture of new style private sector/market influence on the higher education system and old style central planning.

Information dissemination and performance based funding

In February 1998, the provincial government announced the post-secondary institutions would be required to make available to students information regarding graduation rates, work placement rates and loan default rates. The province stipulated that those institutions that did not already collect such data would be required to do so by September 1999, and penalties would be levelled.

With several years of data available – and for the first time in Ontario – the government announced in 2000 that 1 per cent (or $16.5 million) of the universities’ operating grants would be allocated based on institutions’ performance indicators in three areas: graduation rates, graduate employment rates after six months, and graduate employment rates after two years.

In a traditional market, perfect competition can only exist where consumers have sufficient information regarding the range of products and services that exist, as well as pricing
information, as introduced earlier in this thesis. "A market becomes more nearly free when consumers gain information about the products competing for their choice" (Reisman 1998: 225). In the United States, where the array of educational choices available to students is so vast, "considerable thought has been given to how to improve the matching, now so often happenstance, between a particular student and a particular institution" (ibid.). Much of the information available – in addition to popular ranking materials such as the annual *US News and World News and World Report* annual rankings publication – pertain to academic programming, tuition discounts and to some extent the information regarding the financial penalties attached to withdrawing from courses (ibid.). Though the types of information the government had in mind were somewhat different, the aim was the same – to create a more perfect market environment in which students *cum* customers could make more informed choices.

**Private Universities**

In the winter of 2000, the provincial legislature passed the *Ministry of Training, Colleges and Universities Statute Law Amendment Act, 2000*, (Bill 132) establishing the *Post-secondary Education Choice and Excellence Act*, billed as legislation enabling the establishment of private universities. According to the government, this Act was introduced in order to respond to student demand for more spaces and more choice in degree programs, as well as employers’ changing expectations (Ministry of Training, Colleges and Universities, April 2000).

The Act would create a body called the Post-secondary Education Quality Assessment Board, which would advise on the approval of new degree programs in the province. In a statement replete with the language of the market, the government states that "Our government is promoting excellence throughout the post-secondary system by giving students the opportunity to
choose privately funded institutions. Today's announcement is an important step forward in improving quality of education in our colleges and universities” (Ministry of Training, Colleges and Universities, October 2000).

More specifically, the legislation would:

- Allow the Minister of Training, Colleges and Universities to give consents to new degree-granting institutions in Ontario;
- Allow the Minister of Training, Colleges and Universities to give consent to colleges of applied arts and technology to grant baccalaureate degrees in applied areas of study;
- Enshrine the Post-secondary Education Quality Assessment Board in law and require that applications for consent first be referred to the Board, which would assess them and make recommendations for approval or denial to the Minister of Training, Colleges and Universities;
- Require that the Minister be assured that all new private post-secondary institutions provide appropriate financial protection for students before they are given degree-granting authority;
- Specify that new private institutions would not be entitled to any government funding;
- Create new provincial offences for OSAP abuse with fines as high as $25,000 for individuals and $100,000 for offending corporations.

Furthermore, while the Minister has final say over the granting of consent to operate a new degree-granting institution in the province, the Act stipulates that “the Minister shall not grant or reject an application unless he or she has received a recommendation from the [Quality Assessment] Board” (Bill 132, Section 6. 1). Moreover, the minister at any time has the authority to suspend or revoke consent; reinstate a consent with or without conditions; add new terms and conditions to a consent; and change or remove terms and conditions attached to a consent (ibid.).

The legislation itself declares that “the giving of consent does not entitle the person to whom the consent is given any funding from the Government of Ontario” (Bill 132, Section 8). However, such institutions that have received consent would receive provincial funds through the
provincial student aid program, as indicated by the intention of creating new OSAP abuse fines. However, they would be held to the same process as other private, vocational institutions already in operation in Ontario, which must be in operation for at least three years and have at least one graduating class before it could offer OSAP loans (Ministry of Training, Colleges and Universities, *Increasing Degree Opportunities for Ontarians: A Consultation Paper, 2000*).

A pilot project involving the network of community colleges and applied technology would constitute a first step in broadening the number and type of institutions able to offer degree programs in Ontario.

The Quality Assessment Board created under the Act would function as a 'gatekeeper' to the university market in Ontario. It is to be composed of a chair appointed by the lieutenant governor in council, while the minister would appoint a vice-chair and a maximum of nine other members. The Board will review applications and make recommendations to the Minister; establish advisory committees to provide advice regarding recommendations for consent; and perform whatever research is required in making its recommendations.

The Act also provides fairly broad conditions under which Ministry-appointed officials may inspect the premises an institution with degree-granting powers extended under this Act, as well as its official documents. Such inspections are carried out in order to determine if the conditions under which consent was granted are being met, or whether new conditions are warranted. The Minister alone may take actions deemed necessary which arise from an inspection, and may revoke a consent given pursuant to this law when seen fit to do so.

The introduction of private universities *per se* does not signal privatization, though it does create greater "choice" in the education market, a requirement of markets. However, what is clear about this legislation, which replaces the *Degree Granting Act*, is that the conditions
attached to entry into the Ontario higher education market are so conditional on the findings of the QAB that this market can hardly be considered 'free.'

It is, however, entirely consistent with the Ontario government’s introduction of market forces within the constraints it imposes: The nature of the bill belies the control that the provincial government – as well as the Quality Assessment Board – will continue to wield with respect to market entry. It is in fact a provincial policy that combines both change in direction of the market, and a fairly high level of government and bureaucratic control.

One could also imagine that the Quality Assessment Board may be busiest with applications from the province’s Colleges of Applied Arts and Technology. The government intends to offer a three-year pilot project, in which the CAATs would apply for degree-granting status on a program basis. The law does little to articulate the possibility of new institutions per se, but rather new programs offered through the CAATs. Moreover, since the Act prohibits any party from granting a degree, advertising, offering or charging for a program or part of a program without authority granted under the Act (Section 2.1-4), the creation of new, private institutions is certainly made possible for the first time, though under very tight restrictions.

Chapter Conclusion

The landscape of provincial and federal support, combined with higher and differentiated fees more reflective of costs; the toleration and even encouragement of new, private degree programs; the use of matching programs, all cumulatively paint the portrait of a move market-like landscape of higher education in Ontario. This is, of course, not to say that governments, including that of Ontario, have shown the utmost confidence in markets. The government of Ontario may have increased the total funds available for universities in the past three years, but
they have not written blank cheques, nor have they carried out a policy of total fee deregulation. In general, however, the shift away from the relative discretion associated with the block grant toward the use of earmarked funds – some of which is determined on a competitive basis – is at the heart of a shift towards the marketization of education (Leslie and Slaughter 1997a and 1997b; Dill 1997a; Dill 1997b).

Policies that have been introduced in Ontario that serve to introduce more market-like forms include: 1) tuition fee policy; 2) research and operating funding support; 3) the encouragement of private degree-granting institutions; 4) information dissemination regulations and performance indicators. Two policies reviewed above, however, require some qualification: The Ontario Student Opportunity Trust Fund (OSOTF) and the Access to Opportunity Program (ATOP) initiatives. Some of the non-market features of both programs have already been discussed. But the central question is: Have these programs required universities to engage more fully with one of the many markets that ‘contract’ its services? Has the government not required universities to compete with one another for both public and funds? The answer to both questions is unequivocally ‘Yes.’ In both cases, government policy has induced increasingly competitive behaviour on the part of universities for funds in various markets.

There are, of course, varying degrees of marketization when policies are considered individually, as the example of Ontario illustrates. For example, at least initially, the government may be less interested in opening Ontario up to private, non-profit or for-profit degree-granting sector as is it is addressing the divide between the CAATs and the universities and allowing CAATs to offer degrees beyond those in applied arts. Although the Act does provide for process through the QAB in which an institution could apply to become recognized as a "university," it does provide for continued protection in the use of the name (Section 3, 1-4).
However, as suggested in Chapter III, the application of the market paradigm to any system of higher education begins with severe limitations and rather rigorous qualification. These limitations and qualifications arise largely from the nature of public policy interventions in education markets, and to governments' selective use of market mechanisms:

The concept of the market suggests unrestricted competition between academic institutions limited only by their creativity and society's scarce resources. But there is substantial variation among existing higher education markets, caused primarily by public policy interventions. Government policy on the basic conditions, structure and conduct of academic markets can have a significant influence over the strategic options of an academic institution as well as on the institution's performance (Dill 1997b; 183).

Ontario provides an example of the instances in which government aims and market mechanisms are combined, serving to shape the degree and nature of the institutions' engagement with various markets. The market is an "assistive" device, never intended to be substituted for state control.
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(1) Formula Fee, or the standard formula fee, which is that permitted under the funding formula.
(2) Maximum Discretionary Component refers to the amount over which the government has permitted to universities to charge at their discretion.
(3) Maximum Tuition Fee, which is the formula fee plus the discretionary component.

Table 8.2
Sample of University of Toronto tuition fees by program, 1997 to 2000, excluding non-academic compulsory fees*

<table>
<thead>
<tr>
<th>Program</th>
<th>CURRENT STUDENTS</th>
<th>NEW COHORT ENTERING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering**</td>
<td>$3,447</td>
<td>3,972</td>
</tr>
<tr>
<td>Arts and Science</td>
<td>3,196</td>
<td>3,516</td>
</tr>
<tr>
<td>Dentistry</td>
<td>8,844</td>
<td>10,613</td>
</tr>
<tr>
<td>Law</td>
<td>3,808</td>
<td>4,570</td>
</tr>
<tr>
<td>Management**</td>
<td>4,780</td>
<td>5,736</td>
</tr>
<tr>
<td>Medicine</td>
<td>4,844</td>
<td>5,813</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>3,808</td>
<td>4,570</td>
</tr>
<tr>
<td>Doctoral Stream</td>
<td>4,477</td>
<td>4,477</td>
</tr>
</tbody>
</table>

*Source: Derived from the University of Toronto Tuition Fee Schedule, Home P..  
** All programs refer to undergraduate, unless otherwise noted.  
*** Master’s program.
Table 8.3
Arts and Science Fees, undergraduate, for selected Ontario Universities

<table>
<thead>
<tr>
<th>Institution</th>
<th>1988-1989 ($)</th>
<th>1998-1999 ($)</th>
<th>Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carleton</td>
<td>1,411</td>
<td>3,420</td>
<td>142</td>
</tr>
<tr>
<td>Guelph</td>
<td>1,374</td>
<td>3,465</td>
<td>152</td>
</tr>
<tr>
<td>McMaster</td>
<td>1,410</td>
<td>3,422</td>
<td>143</td>
</tr>
<tr>
<td>Ottawa</td>
<td>1,411</td>
<td>3,433</td>
<td>143</td>
</tr>
<tr>
<td>Queen’s</td>
<td>1,411</td>
<td>3,551</td>
<td>152</td>
</tr>
<tr>
<td>Toronto</td>
<td>1,410</td>
<td>3,516</td>
<td>146</td>
</tr>
<tr>
<td>Waterloo</td>
<td>1,411</td>
<td>3,554</td>
<td>152</td>
</tr>
<tr>
<td>Western Ontario</td>
<td>1,411</td>
<td>3,515</td>
<td>149</td>
</tr>
<tr>
<td>York</td>
<td>1,415</td>
<td>3,551</td>
<td>151</td>
</tr>
</tbody>
</table>

Source: COU, 1999a

Table 8.4
Selected Programs, Selected Universities, Tuition Fees, 2000-2001

<table>
<thead>
<tr>
<th>Institution</th>
<th>Arts</th>
<th>Engineering</th>
<th>Law</th>
<th>Medicine</th>
</tr>
</thead>
<tbody>
<tr>
<td>McMaster</td>
<td>3,831</td>
<td>4,556</td>
<td>-</td>
<td>13,500</td>
</tr>
<tr>
<td>Ottawa</td>
<td>3,892</td>
<td>4,538</td>
<td>5,500</td>
<td>8,500</td>
</tr>
<tr>
<td>Queen’s</td>
<td>3,951</td>
<td>5,500</td>
<td>5,903</td>
<td>9,384</td>
</tr>
<tr>
<td>Toronto</td>
<td>3,951</td>
<td>5,250</td>
<td>10,000</td>
<td>14,000</td>
</tr>
<tr>
<td>Western</td>
<td>3,920</td>
<td>4,460</td>
<td>6,400</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Source: COU, 2000
<table>
<thead>
<tr>
<th>Year</th>
<th>Grants</th>
<th>Fees</th>
<th>Grants + Fees</th>
<th>Year</th>
<th>Grants</th>
<th>Fees</th>
<th>Grants + Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>87-88</td>
<td>1,916,281</td>
<td>453,764</td>
<td>2,370,045</td>
<td>87-88</td>
<td>1,451,592</td>
<td>343,728</td>
<td>1,795,320</td>
</tr>
<tr>
<td>88-89</td>
<td>1,969,984</td>
<td>481,034</td>
<td>2,451,018</td>
<td>88-89</td>
<td>1,554,947</td>
<td>379,690</td>
<td>1,934,637</td>
</tr>
<tr>
<td>89-90</td>
<td>2,017,514</td>
<td>506,550</td>
<td>2,524,064</td>
<td>89-90</td>
<td>1,676,864</td>
<td>421,021</td>
<td>2,097,885</td>
</tr>
<tr>
<td>90-91</td>
<td>2,086,672</td>
<td>543,260</td>
<td>2,629,932</td>
<td>90-91</td>
<td>1,822,796</td>
<td>474,561</td>
<td>2,297,357</td>
</tr>
<tr>
<td>91-92</td>
<td>2,141,010</td>
<td>586,063</td>
<td>2,727,073</td>
<td>91-92</td>
<td>1,945,074</td>
<td>532,429</td>
<td>2,477,503</td>
</tr>
<tr>
<td>92-93</td>
<td>2,175,981</td>
<td>646,215</td>
<td>2,822,196</td>
<td>92-93</td>
<td>2,009,133</td>
<td>596,665</td>
<td>2,605,798</td>
</tr>
<tr>
<td>93-94</td>
<td>2,005,029</td>
<td>674,373</td>
<td>2,679,401</td>
<td>93-94</td>
<td>1,875,973</td>
<td>630,966</td>
<td>2,506,939</td>
</tr>
<tr>
<td>94-95</td>
<td>1,969,006</td>
<td>719,329</td>
<td>2,688,335</td>
<td>94-95</td>
<td>1,853,629</td>
<td>677,179</td>
<td>2,530,808</td>
</tr>
<tr>
<td>95-96</td>
<td>1,897,685</td>
<td>774,829</td>
<td>2,672,513</td>
<td>95-96</td>
<td>1,823,143</td>
<td>744,393</td>
<td>2,567,536</td>
</tr>
<tr>
<td>96-97</td>
<td>1,586,341</td>
<td>866,344</td>
<td>2,452,685</td>
<td>96-97</td>
<td>1,550,722</td>
<td>846,891</td>
<td>2,397,613</td>
</tr>
<tr>
<td>97-98</td>
<td>1,564,324</td>
<td>940,896</td>
<td>2,505,220</td>
<td>97-98</td>
<td>1,548,836</td>
<td>931,580</td>
<td>2,480,416</td>
</tr>
<tr>
<td>98-99</td>
<td>1,614,089</td>
<td>1,024,738</td>
<td>2,638,827</td>
<td>98-99</td>
<td>1,614,089</td>
<td>1,024,738</td>
<td>2,638,827</td>
</tr>
</tbody>
</table>

Source: Council of Ontario Universities, 1999a
<table>
<thead>
<tr>
<th>Institution</th>
<th>$s Raised</th>
<th>% of funds</th>
<th>% prov. enrolment</th>
<th>Tier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brock</td>
<td>3,551,811</td>
<td>1.37</td>
<td>3.2</td>
<td>3</td>
</tr>
<tr>
<td>Carleton</td>
<td>9,691,471</td>
<td>3.81</td>
<td>6.3</td>
<td>3</td>
</tr>
<tr>
<td>Guelph</td>
<td>14,692,803</td>
<td>5.78</td>
<td>4.7</td>
<td>3</td>
</tr>
<tr>
<td>Lakehead</td>
<td>3,234,998</td>
<td>1.30</td>
<td>2.6</td>
<td>3</td>
</tr>
<tr>
<td>Laurentian</td>
<td>6,021,733</td>
<td>2.36</td>
<td>2.5</td>
<td>2</td>
</tr>
<tr>
<td>-Algoma</td>
<td>52,132</td>
<td>.02</td>
<td>0.2</td>
<td>2</td>
</tr>
<tr>
<td>-Hearst</td>
<td>500,000</td>
<td>.20</td>
<td>.03</td>
<td>2</td>
</tr>
<tr>
<td>McMaster</td>
<td>17,662,000</td>
<td>6.90</td>
<td>5.9</td>
<td>3</td>
</tr>
<tr>
<td>Nipissing</td>
<td>1,576,365</td>
<td>.62</td>
<td>.8</td>
<td>2</td>
</tr>
<tr>
<td>OCAD</td>
<td>250,000</td>
<td>.10</td>
<td>.7</td>
<td>2</td>
</tr>
<tr>
<td>Ottawa</td>
<td>8,681,314</td>
<td>3.42</td>
<td>7.4</td>
<td>3</td>
</tr>
<tr>
<td>Queen’s</td>
<td>29,843,848</td>
<td>11.80</td>
<td>5.7</td>
<td>1</td>
</tr>
<tr>
<td>Ryerson</td>
<td>1,629,283</td>
<td>.63</td>
<td>6.0</td>
<td>3</td>
</tr>
<tr>
<td>Toronto</td>
<td>94,962,816</td>
<td>37.37</td>
<td>17.0</td>
<td>1</td>
</tr>
<tr>
<td>Trent</td>
<td>2,693,987</td>
<td>1.06</td>
<td>1.8</td>
<td>2</td>
</tr>
<tr>
<td>Waterloo</td>
<td>3,425,884</td>
<td>1.33</td>
<td>6.5</td>
<td>3</td>
</tr>
<tr>
<td>Western Ontario</td>
<td>17,224,618</td>
<td>6.77</td>
<td>9.5</td>
<td>3</td>
</tr>
<tr>
<td>Wilfrid Laurier</td>
<td>2,271,181</td>
<td>1.10</td>
<td>2.6</td>
<td>2</td>
</tr>
<tr>
<td>Windsor</td>
<td>2,717,340</td>
<td>1.06</td>
<td>4.6</td>
<td>3</td>
</tr>
<tr>
<td>York</td>
<td>33,538,178</td>
<td>13.18</td>
<td>12.0</td>
<td>2</td>
</tr>
</tbody>
</table>

**254,222,428**  

100.00*  

100.00*

* Figures do not add due to rounding.

Conclusion

Ontario's emerging higher education market

The market has proven to be powerful organizing principle for change in university finance policy in a number of OECD countries. These policy shifts, identified in Chapter III as a tendency to adopt more sophisticated formulae for allocating funds for teaching and research, developing separate mechanisms for funding teaching and research, increase user fees, as well as more competitively based bidding systems for public dollars (OECD 1990), signal changes beyond year-over-year reductions in government support, to which universities had become accustomed and adapted (Newson and Buchbinder 1988).

Universities have never been immune from the changes taking place in the societies in which they are located, but particularly true today in the age of the global village. They have curried and won the favour of governments and alternatively incurred their share of suspicion as an institution type geared to spending.

The heavy dependence of most universities and colleges on public funds makes them vulnerable to changes in political priorities. Their high unit costs compared with other branches of education make them attractive targets for governments wishing to limit public expenditure (OECD 1990: 9).

In Ontario, minimal changes and the lack of investment in universities beside steady enrolment growth characterized the 15-year period prior to 1995. During the 1980s, tuition fees remained stagnant, although operating grants from governments failed to keep up with inflation and surges in enrolment, producing a decline in the conditions of academic work and a growing literature on the funding crisis. By the mid-1980s, FTE funding had decreased in constant dollars from the middle of the previous decade by 13 per cent over the previous decade (Skolnik and
Despite the criticism from various quarters that Ontario universities were not resourced at adequate levels, no major changes were introduced either to increase funding or change the manner in which universities were financed.

The Progressive Conservative government was elected in 1995 on a general platform of cost-cutting, tax reductions and bringing greater efficiencies to the public sector. Major social spending reductions were implemented in the first fiscal year of its first term in office, with the goal of meeting its promise to deliver $3 billion worth of personal income and corporate tax reductions. Municipalities, universities, colleges, schools, hospitals and social agencies lost a sizeable portion of their operating grants. The government also spoke of privatizing several government agencies, including the Liquor Control Board of Ontario, TV Ontario, the provincially owned public television station with an educational mandate, and Ontario Hydro.

Although the government appears to have lost some of its previous appetite for widespread privatization, it has followed through on the threat to bring significant policy change to the landscape of university finance, and the direction of this change has been decidedly market-oriented. These changes include:

1) Changes in tuition fee policy and regulation, in which the government permitted the basic arts and science fee to increase at the discretion of the universities to 133 per cent of the formula fee; graduate programs in all areas were deregulated, as well as programs in engineering, law, medicine, dentistry, management, education (the M Ed and Ed D streams), and all other programs deemed 'professional,' including museum studies and the like;

2) Changes in provincial allocations direct to the universities, and the increasing importance of other sources of income;
3) Information dissemination requirements, based on the assumption that markets are more 'perfect' when greater amounts of information are accessible that may inform consumer choice. In related policy, a small portion of grants (about 2 per cent) are tied to the institution's ability to remain below certain levels in terms of the student loan default rates;

4) The Access to Opportunity Program, an initiative to 'double the pipeline' of computer science and engineering graduates. This program was conceived of by the private sector, which put forward a proposal that the government match all funds raised by the private sector toward expanding the number of student spaces in these fields;

5) The Ontario Student Opportunities Trust Fund, intended to increase the amount of student support funds available to needy students. It was also a matching program in which the government of Ontario matched all funds raised in the private sector for student aid;

6) The Ontario Research and Development Challenge fund, in which the provincial government would contribute one-third of total funds required to support initiatives that have secured private sector financing;

7) New law and policy that enable the establishment and approval of private, degree-granting programs and universities.

Despite the similarities among Ontario, England and Australia in some of the forms of market policies introduced, the rationale behind marketization is somewhat different among the three jurisdictions. In the cases of England and Australia, the use of the market model served to achieve expansion at minimal public cost. For example, the no- or low-tuition strategy in Australia to encourage and increase the participation rate of women, lower SES and Aboriginal students had been declared a failure, and the federal plan to expand the system was part of a
larger industrial strategy designed to fuel economic growth and prepare the country for the 'new economy.' Although student tuition fees were not introduced in England until the late 1990s, diversifying university funding sources and tinkering with the higher education system as a whole to, in effect, lower the per-student cost of instruction, also served the goal of expansion.

Alternatively, Ontario's participation rate far exceeded the OECD average: the introduction of market mechanisms in Ontario served to shift costs rather than fund expansion. However, an interest in renewing provincial industrial strategy and introducing more finely tuned mechanisms for accounting for the ways in which public funds are spent are the fundamental similarities behind the motivations in all three jurisdictions. This is, of course, in addition to the political attraction of the market model.

Finance policy shifts in the direction of the market in countries such as England and Australia have been accompanied by some decidedly strong regulatory measures, and a desire on the part of the government to see universities adopting more state-identified priorities. The nature and language of policy changes introduced in England beginning in the decade of the 1980s and in Australia toward that end of the same, seem to implicitly problematize university autonomy, which had allowed them to exert their own priorities at the perceived expense of national growth and economic competitiveness. This, then, is somewhat at odds with the trends noted by the OECD, trends which suggest that universities appear to gain a measure of financial autonomy following the adoption of market mechanisms.

*Increased financial autonomy for higher education institutions has several implications for their internal management: most of the country reports indicate increases in the degree of control that these institution have over their internal resource allocation (1990: 79).*
However, in the political jurisdictions examined in this thesis, it is questionable whether or not the introduction of market forms serves to grant universities a greater degree of autonomy. England, Australia and Ontario provide examples to the contrary, in which public universities have long enjoyed a fair degree of autonomy, either due to the nature of their enabling documents or their public funding arrangements (for example, the relative emphasis on block funding versus more sophisticated use of formula and earmarked funds). The dual trends of a shift toward market forms and increased institutional autonomy noted by the OECD may in fact apply to countries such as Spain – discussed briefly in the introduction of the thesis – in which universities have a long tradition of being more a creature of the state, and are just beginning to consider curriculum reform to reflect student demand and labour market needs. At the same time, Spain defies some of the trends evident in other European countries: while it has devolved the task of appointing faculty to the institutions themselves as well as designing curricula, trends noted by the OECD, universities are now accountable to their regional governments as opposed to the central Spanish state (Mora 1997). In other OECD countries such as Italy, the universities have a long history of “isolation,” having successfully resisted ‘massification’ and the encroachment of vocationalism, continuing instead to function in their pre-war capacity as “an institution for social selection rather than for teaching and learning” (Moscati 1991: 106). However, to characterize policy change in such countries that seek to make institutions more accountable to their vast array of stakeholders as marketization is to stretch the concept to unreasonable limits. In the example of Spain, marketization has been hastily applied to a system that is merely removing some of the instruments that had allowed Franco to take such a firm grasp of the countries institutions.

More fatal to the integrity of the notion of marketization as a meaningful analytical tool in conceptualizing higher education reform is the ‘either/or’ proposition upon which it often rests.
Observations of global trends in higher education at times fails to capture the multi-layered and seemingly contradictory nature of policy change. For example, the fatal flaw of such works as Goedegebuure et al.'s (1993: 324) comprehensive review of higher education policy change in western Europe is this either/or proposition. In noting the general direction of changes in the relationship between higher education institutions, the market and the state, the authors note:

If the push towards institutional competition, de-regulation, and privatization is a pervasive and long term trend, then it is an interesting phenomenon indeed, for it appears to represent a reversal of governments' attitudes in their relationship with higher education. Trow (1984: 143) notes that during the 1950s, 1960s and 1970s most Western governments were not willing to trust to the private sector the achievement of basic social goals...

Is marketization a long-term and long-lasting shift in university finance policy direction? That is, of course, unknown. However, the problem with posing the question is that it is perhaps the least important one, for it fails to take into account the ways in which the state and the market work together, and, further, how the market paradigm simply adds yet another instrument to the state's already formidable tool box that assists it in regulating and controlling higher education. In other words, the introduction of market mechanisms does not preclude an increase in government control, but rather a change in the nature of the inducements the state may offer to encourage universities to adopt government identified priorities and activities. It is suggested, then, that there may in fact be no reversal of government attitudes per se, but that governments have simply discovered a new way of organizing reform and state control.

As it is suggested in this thesis, the universities examined here been subjected to more regulation, not less, using some of the principles of the market. Successive governments in England became increasingly annoyed with the manner in which, for example, the Universities Grant Committee managed to conspire with universities with respect to the state's attempt to
lower the per student cost in the grant reduction by admitting fewer students. The state then initiated measures to make universities more responsive to government-identified prerogatives, as these institutions were perceived to be too removed from both government control and market forces. In Australia, the Commonwealth government had increasingly made higher education its concern, despite the division of powers which had initially assigned education to the purview of the region-state. Following the decades-long process of consolidating federal power over universities, closer relations were forged between institutions and the government through policy changes introduced by Labor and Liberal governments that have required universities to account for the use of public funds in ever-increasing detail.

In Leslie and Slaughter’s Academic Capitalism, Canada was assessed to be the least advanced in terms of the impact of the combined forces of globalization and the ‘encroachment of the profit motive’ on universities (1997). At the time of their study, policy changes in the direction of the market in the other countries under study (the United States, Britain and Australia) were fairly advanced. Though their study took place prior to the major public sector changes that have transpired since the work was published, had they paid more attention to the different directions taken by the provinces with respect to university finance policy, and their different strategies for coping with federal reductions in provincial transfers, the authors would have been able to develop sharper forecasts where Canada was concerned. In the continuum of market-like university finance mechanisms, variations in provincial policy – beginning in 1994-1995 when HRDC Minister Lloyd Axworthy’s Green Paper was issued and finance changes implemented shortly thereafter – would have provided more fodder for forecasting potential marketization trends in Canada.
Recent policy changes introduced in Ontario derive coherence from the market paradigm. As suggested in Chapter III, marketization is a relative concept, implying a process whereby the procurement of university income is increasing determined on a competitive basis, with an increasingly important role played by private funding sources. The thesis has attempted to qualify the application of the use of the market in higher education as strenuously as possible, while suggesting that government control has not been forfeited in the process of marketization. The apparent contradiction of the combination of state and market influence is not mutually exclusive, and is resolved in the following quote:

Whilst the classic theories of the state gave relatively clear choices between contesting value positions, in our period governments lent support to patterns of governance that seemed to reflect their own ambivalence about the extent and nature of the control that they intended to exercise over public institutions. These ambiguities were fully present attempts known as New Public Management to both decentralise and to substitute more direct means of control by the package of instruments associated with the rise of the Evaluative State. In the context of British higher education, the total effect was, however, more centralisation... The decentralisation implicit in New Public Management approaches were more appropriate to hitherto centrally administered public agencies (Kogan and Hanney 2000: 31).

Given that universities in a number of Commonwealth countries, including Canada, are public institutions with legally autonomous status, government policy to bring them within arm's length is a necessary first step in making institutions more responsive to the various relevant markets: the labour market, that for faculty, students, research moneys and operating funds. The 'ambivalence' referred to by Kogan and Hanney with respect to the Thatcher government and the degree of control to be exercised over the public sector is also apparent in the design features of some of the programs initiated by the government of Ontario. The OSOTF and the ATOP programs are cases in point: they may be viewed as the government attempts to step in and
compensate for the perceived failures of universities to spend and allocate wisely. With respect
to the OSOTF initiative, government could also have regarded the program as an opportunity to
off-load some student aid costs by using OSOTF awards to decrease individual entitlements.
Since an OSOTF award of $500 or more must be claimed on OSAP applications and will be used
to reduce OSAP assessments. With the ATOP initiative, central planning determined the
allocation of IT training spots in the province’s college and universities, while the market
determined whether or not universities would realize their individual expansion aspirations.

It is this combination of somewhat stronger government control combined with exposing
universities to the discipline of the market place (in relative terms, of course), or to various
markets in general, which differentiates the experiences of marketization and privatization.
Privatization is essentially a much more advanced form of marketization, in which governments
excuse themselves from the provision or ownership of public assets altogether. Although in
Ontario the state regulates private sector service providers in many areas, public institutions, even
with the significant reductions in public support, are still far too dependent on such support and
far too regulated to be considered in the process of being privatized. Moreover, governments are
far too interested in the role universities can play in economic growth to allow them to reside
entirely beyond their grasp, recalling the old saying that “education is too important to the left to
the educationalists.” The competitive edge they could potentially provide (and do provide) to
national economies by producing a highly educated and trained labour market – not the mention
their role as knowledge producers – is far too valuable to government, even those bent on cost-
cutting. Marketization represents a neo-Liberal, 21st late-20th century compromise between
privatization and the continued control of the ‘academic oligarchy,’ in the political context of the
ascendancy of the market paradigm and the backlash against state intrusion in western economic
life. Further, market mechanisms are perhaps viewed by the government as a way of assisting it in allocating resources, where either government failure or market failure alone threaten either efficient allocation, or in the latter case, a resultant loss of state control over outcomes.

The design of the so-called 'private universities act' is a case in point. Although the Post-secondary Education Choice and Excellence Act was only recently passed (December 21, 2000), it would appear from the Act that if indeed Ontario's higher education finance policy is being reformed along the lines of a market, its boundaries are to be drawn by government as it acts in the role of gatekeeper.

As stated in the introduction to this thesis, it was not the goal of this project to mount a moral objection to introducing market mechanisms to higher education. However, it is important to acknowledge these more overtly political views, as they serve as a reminder of the ideological dimension of such emerging policy directions, despite their relatively global nature. And it is precisely this global dimension that serves to a large extent to mask its political dimensions. Recognizing shifts in public sector finance toward the market model and the retention of government control serves to unveil the mask of the inevitability by allowing us to see how forms of government control combined with the selective use of market mechanisms work in tandem to achieve public policy goals.

And although it is far too early to gauge the effects of the introduction of market mechanisms on the whole, markets tend to exacerbate relatively subtle differences among institutions (and products, for that matter); markets presume one product's success at the expense of others. One policy in particular examined in the thesis already tells something of the story when markets are permitted a role in the allocation of resources.
For example, the 'Ontario Student Opportunity Trust Fund,' is the provincial initiative in which institutions were obligated to raise private-sector funds in order to access public funds for institutionally administered, need-based student aid. On the basis of their performance in this fund-raising competition, three tiers of universities emerged. Two universities raised a percentage of the total funds raised that represented more than their share of the province's student enrolment, the University of Toronto and Queen's University (another group raised their share, and an even larger group did not). Aside from questions of the quality of these two schools, in the case of Queen's the share was in some ways undeserved: Queen's University enrolls the smallest percentage of provincial-loan dependant students out of all provincial universities. Relying on the market to distribute need-based student aid funds does not ensure that the neediest students have access.

Therefore, where the private sector in the form of market players – such as representatives of industry and the like – clearly have a role in working with universities and governments to allocate funds in the applied research carried out by universities, it is questionable whether it is appropriate that elected governments delegate the task of allocating need-based student aid funds to the private sector.

At this early stage in the marketization of Ontario university finance policy, it is possible to make some evaluative statements about the efficacy of particular policy initiatives, such as the observations made concerning the OSOTF program. However, the purpose of this thesis is to examine recent policy changes in Ontario for the degree to which they draw on a market paradigm, and to draw out the role of the government in the utilization of market mechanisms. And despite the qualifications made about the application of marketization in these three jurisdictions, the use of marketization and market dynamics in these jurisdictions are employed to
reduce the influence of the 'academic oligarchy' and the autonomy of institutions. It is, therefore, more accurate to describe the policies of Ontario from 1995 - 2000 as deriving theoretical coherence from the idea of the market, rather than contributing to the creation of a market as we know it in the private sector production of other goods and services.
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