

SPECIAL FEATURES / CONTRIBUTIONS SPECIALES

Direct Funding to Users: A Schematic Analysis

JAMES DOWNEY* and HOWARD FRITZ*

INTRODUCTION

Direct funding to users, or student-choice programs, are usually referred to as 'voucher schemes' in the literature. The literature, however, has little to say about vouchers in the context of post-secondary education. A voucher scheme at the elementary or secondary school level operates in an environment of compulsory attendance and makes vouchers available to all school-age children who use them to buy education at the school of their choice.

At the post-secondary level, where attendance is not compulsory, a voucher scheme would have to take into account (among other things) how many vouchers to make available, how much they should be worth, and who would receive them. In this respect vouchers resemble scholarships. They could, of course, be made available to all students admitted to an accredited post-secondary institution; on the other hand, if the supply of vouchers were limited, they could be rationed on the basis of academic achievement, family income, athletic ability, competitive examinations, etc.

The term 'voucher schemes' has become synonymous with systems that emphasize student choice in determining the allocation of resources to and within education. The coinage of the term is generally attributed to Milton Friedman, who used it in his 1955 essay, 'The Role of Government in Education'.¹ In 1980 Friedman re-examined and reaffirmed the concept in a much-publicized book he wrote in collaboration with Rose Friedman, 'Free to Choose'.² More recently still John Holland and Saeed Quazi,³ in a study done for the Secretary of State, reviewed the voucher literature and proposed a scheme that incorporates a financial aid component with a means test.

Generally speaking, the reasons put forward for adopting a voucher scheme are these: greater social equity, improved institutional efficiency, enhanced federal visibility in funding of post-secondary education, and promotion of specific fields of study.

* University of New Brunswick

Greater Social Equity

If the percentage of students from relatively high-income families who attend post-secondary institutions is, as seems to be the case, markedly higher than the percentage attending from relatively low-income families, then, since vouchers are equally available to all students, the scheme will lead to an increased participation rate by students from low-income families and, hence, accessibility to post-secondary education will be more equitably distributed.

Improved Efficiency

If the institutions in a constituency currently being funded by direct government grants are considered to be inefficient, the reason for this inefficiency is likely to be that the institutions are insulated from the pressures of the marketplace and hence are not disciplined by competition. Vouchers in the hands of students force institutions to compete with each other in order to maximize enrolments and consequently their revenue. This competition promotes efficiency.

Enhancement of the Visibility of the Funding Source

In a system where the federal government collects taxes and distributes funds for post-secondary education to provincial governments, who then in turn provide subventions directly to the institutions within the province, the role of the federal government is not clearly visible. Visibility of the funding source is greatly increased if the federal government distributes vouchers directly to the students who use them to buy post-secondary education from accredited institutions.

Promotion of Specific Fields of Study

Should a government decide that it is important to steer students into particular fields of study, it could do so by apportioning a limited supply of vouchers so that more vouchers are available for designated fields of study, or by attaching a higher value to vouchers assigned to particular fields of study and allowing the students to retain the differential amounts.

EXPERIENCE WITH VOUCHER SCHEMES

Experience with voucher schemes is very limited and the test cases or experiments that have been tried have not been at the post-secondary education level. A three-year experiment at Alan Rock, California, seems to be the only one actually to have been carried out, and it was limited to a few public schools. A number of other attempts have been planned but never implemented. There are, however, several voucher-like schemes which have been tried in Canada and the U.S.

In Canada the Veteran's Rehabilitation Act of 1945 might be said to be an example of a voucher scheme. It is evident, however, that it was designed to service an easily-defined and finite population over a relatively short period of time.

In the U.S.A. some states have operated scholarship programs that are available to state residents so long as the residents attend a state-supported institution — a constraint that limits the 'student-choice' aspect of the voucher concept.

A direct federal government-to-student grant in the U.S.A. is the Pell grant, or basic educational opportunity grant, that distributes federal funds to a group of students identified by a means test. The maximum size of the award is \$1,400 and the idea is to guarantee the availability of a minimum level of support for all students who want post-secondary education. (It is perhaps worth noting that the Reagan Administration has recently announced that the suggested funding level of these grants for 1983 is \$1.6 — 1.8 billion dollars, down from \$2.27 billion dollars in 1982.)

SOME VOUCHER SCHEMES CONSIDERED

The impact of a federal voucher scheme in Canada would depend upon the specific details of its implementation and the various responses to the particular scheme by the provincial government, the post-secondary institutions, and the students. The following skeletal schemes are put forward to illustrate some alternatives pertinent to a university context.

Example A: A scheme design to

1. increase federal visibility but
2. not necessarily influence a student's choice of field of study would
 - (a) place a fixed-value voucher in student hands and
 - (b) reduce transfer payments to the provinces on the understanding that
 - (c) the universities would raise their fees by the value of the voucher and receive a lower level of funding from the provinces.

Some probable consequences would be:

- (i) students would now have to deal with a federal department in order to obtain the voucher. This ensures that the source of the funds is known to them, but confronts them with one more administrative hurdle;
- (ii) university financing would become more enrolment sensitive, the degree of sensitivity depending upon the funding formula used and the value of the vouchers;
- (iii) the increased sensitivity of revenue to enrolment would lead to increased competition for students by the universities;
- (iv) the reduction in transfer payments would have to be calculated for each province, a process that would lead to more federal-provincial haggling unless the transfer payment was entirely eliminated so that no calculation formula was required.

Example B: A scheme designed to

1. promote equity as well as to
2. increase federal government visibility but
3. not necessarily impact upon a student's choice of field of study would
 - (a) place a higher-value voucher in the hands of students from lower-income families and
 - (b) place a lower-value 'universal' voucher in the hands of all other students and
 - (c) reduce transfer payments to the provinces on the understanding that
 - (d) the universities would raise their fees by the value of the 'universal' voucher and receive a lower level of funding from the provinces.

Some probable consequences would be:

- (i) all of the consequences in Example A;
- (ii) a method of means-testing applicants for the higher-value vouchers would have to be found;
- (iii) the opportunity to attend university would be extended to that segment of the lower-income population who find that the higher-value voucher is the decisive factor when considering university attendance.

Example C: A scheme designed to

1. increase federal government visibility and
2. influence a student's choice of field of study would
 - (a) place a higher-value voucher in the hands of students admitted to fields of study specified by the federal government, and
 - (b) place lower-value 'universal' vouchers in the hands of all other students, and
 - (c) reduce transfer payments to the provinces on the understanding that
 - (d) the universities would raise their fees by the value of the 'universal' voucher and receive a lower level of funding from the provinces.

Some probable consequences would be:

- (i) all of the consequences in Example A;
- (ii) student demand for specified fields of study would increase;
- (iii) universities with such programs would experience expanded enrolments, presumably with some enrolment contraction in their other programs;
- (iv) decreased enrolments in those universities that did not offer the specified programs;
- (v) the capacity of the universities with the specified programs would be saturated, thus leading to requests for funds (from whom?) in order to expand their capacity;
- (vi) universities without such programs would seek permission and funding (from whom?) to implement the specified programs;

- (vii) all students receiving higher-value vouchers would thereby receive a financial benefit equal to the difference between the value of the two vouchers.

GENERAL OBSERVATIONS

Many other schemes can be contemplated but the following concepts must be considered when they are designed.

1. In order to encourage students to choose specified programs it is the students themselves, not the universities, who must receive the financial benefit.
2. A voucher system would require a government (federal) department to distribute the vouchers according to specified regulations.
3. A voucher scheme that is funded by reducing but not eliminating education transfer payments to the provinces would lead to disagreements about the 'correct' amount of funding reduction.
4. Student aid in the form of extra grants or loans requires a method of means-testing and is really a program separate from a voucher scheme.
5. Part-time students would present a particular challenge to a voucher scheme, a challenge not addressed in the literature but one that would have to be met before a system could be designed for post-secondary education today.
6. A scheme that takes all of the federal higher education transfer payments and converts them to a voucher scheme would mean that about 50% of the universities' revenue would be directly dependent upon current enrolments. This contrasts sharply with the many existing arrangements that reduce the enrolment sensitivity of revenue by averaging the enrolments of a number of preceding years.

THE CASE AGAINST VOUCHERS

Notwithstanding its laudable objectives, there are several reasons why a voucher scheme would, on balance, seem to be an unwise innovation in Canadian post-secondary education.

First, although there is a growing body of writing on the subject, voucher schemes have been little tried anywhere and not at all in a comprehensive post-secondary educational system. The political and technical variables would seem to make voucher schemes a hazardous experiment at this time.

Second, substantial direct grants to students would be inconsistent with the well-established pattern of funding to post-secondary institutions in Canada, and a departure from the growing rationalization of programs by governments and their advisory councils in certain provinces and the Maritime region. The gains in this latter area would be quickly dissipated if institutions were forced to compete for students in order to survive.

Third, the intensified competition would almost certainly bring about the demise of a number of institutions which, by virtue of their current program configuration and straitened financial circumstances, could not adapt quickly

enough to the new situation. (It is possible, of course, that this might be politically unacceptable, and a voucher scheme would be adjusted to ensure institutional survival. In which case, one would be justified in wondering why have a voucher scheme in the first place.)

CONCLUSIONS

To return now to the four principal objectives of a voucher scheme, it would seem that there are other ways, more consistent with patterns well-established and functional, to achieve them.

1. **Promotion of Equity**

Loans and grants to a group of students identified through a means test of applicants addresses the equity issue without placing a voucher in the hands of *every* student.

2. **Improvement in Efficiency by Competition**

A desire for increased competition for students by universities as a means of improving institutional efficiency, if this were an objective of either level of government, can be achieved by increasing the enrolment sensitivity of revenue in existing apportionment formulae without introducing vouchers.

3. **Promotion of Specific Fields of Study**

To do this the student must receive the financial incentive. The incentive could be achieved by direct awards to students enrolled in the desired programs without placing vouchers in the hands of *all* students.

4. **Enhanced Visibility of the Funding Source**

There is no doubt that vouchers would achieve this objective, but at a price to the institutions and, arguably, to the federal government itself. For the institutions it would mean an increase in the enrolment sensitivity of operating revenue, with the year-to-year uncertainty that would engender. It would also mean, as has been noted before, the expenditure of scarce resources in student-recruitment competition. For the federal government it could mean, depending upon the scheme chosen, the creation of a new bureaucracy to regulate and administer the program. It might also be construed that the federal government had been responsible for the rise in tuition fees.

It has been stated by federal ministers and officials that the federal government has three principal objectives with regards to post-secondary education in the upcoming negotiations with the provinces on Established Programs Financing:

1. to ensure that federal government monies designated for post-secondary education are spent for that purpose and not diverted into other programs;
2. to be able to give an accounting to the taxpayers of Canada for the way in which these funds are allocated by having a direct say in their allocation;
3. to put pressure on provincial governments to honour their own financial commitments to post-secondary education.

It would seem that there are at least three alternatives to the present EPF arrangements for the federal government to consider that would permit them to achieve their objectives. The first is direct assistance to students. The disadvantages to this alternative have been outlined above and ought not, in our view, to be tried at this time. The second is direct assistance to institutions. This, from a practical point of view, has more to recommend it. It would appear, however, that the weight of Canadian constitutional history – legal and conventional – is against it. Without agreement between the provinces and Ottawa as to what should be funded by whom, the institutions themselves could be the great losers.

A third way remains. Federal monies and provincial monies could be provided to institutions on recommendation from jointly-established advisory councils on post-secondary education. Such councils could be by province or region, as seemed desirable. On the basis of designated national and/or provincial priorities, the need for core-funding, and an agreed-upon division of funding responsibility (province by province), the advisory council could recommend to both levels of government what each should contribute to the institutions within a jurisdiction for the coming year or years. Such a system would meet the objectives set out by the federal government; maintain the concept of partnership between Ottawa and the provinces in the support of post-secondary education; give a greater measure of security to the institutions; and help to make institutions more aware of national as well as regional priorities. It would also seem to be a logical evolution from the present system.

REFERENCES

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