Canadian universities are being strangled to death. A recent report out of British Columbia shows that Canada’s per capita spending on college and university students has fallen by 30 percent over the past twenty years.

Why does this matter? Two reasons. First, universities that are starved for funds cannot offer a first-rate education. Sometimes universities hire cheaper, under-qualified teachers. More often the approach is to fill classrooms to overflowing. This year my average class size at McGill exceeds 225; in one class there are 440 students. Classes this large are simply incompatible with high-quality education. I’d like to think it’s just my own good looks and comic delivery that have the students packed in the aisles, but I’d be wrong. The problem is widespread.

Our cash-starved universities are also finding it tough to keep and attract good faculty, especially given the higher after-tax incomes south of the border. As academics leave for greener southern pastures, the quality of Canadian research continues its steady decline. And as the quality of research withers away, the industrial or biotech or medical spin-offs will also disappear.

What’s the solution? At first glance it appears to be simple: give universities more money. But we can’t give universities more money without doing something else as well. Spending more on universities is possible if we either raise taxes or forgo some tax reductions in the near future. But neither of these options will pass political muster these days. The other possibility is that we spend less on something else. So what gets the axe? The health-care system? Primary education? Welfare? Industrial subsidies? Any talk like this and the various lobby groups get assembled and the real battles take place. I, for one, am pessimistic that Canada’s universities will do well in the competition for scarce public dollars. Compared with crowded emergency rooms or impoverished single mothers,
healthy and comfortable university professors and students just don’t attract the public’s sympathy. And perhaps they shouldn’t.

If Canadians aren’t willing to raise taxes or cut back other programs to save our universities, there’s only one solution left. We must allow tuition fees to rise dramatically, perhaps to $6,000 or $10,000 or even more. If this happened, university students would start paying roughly half of the full $15,000 cost of their education rather than the one quarter or less that they now pay. But this option is unthinkable to many Canadians. There is a widespread belief that taxpayers ought to pay for the lion’s share of higher education because society as a whole benefits from an individual’s education. But is this really true?

Consider my own university education in economics. Did the Canadian public benefit from my education? Maybe a little. Presumably there are some benefits to other people from my being a better-informed voter. Maybe there are other benefits as well. But I have no doubt that the vast majority of the benefits from my higher education accrue to me in the form of a higher salary or a better job. Furthermore, this is true for most university students. It is especially true for those with professional degrees such as medicine, dentistry, engineering, law or business, but it is also the case in the pure sciences and arts. And if individuals reap most of the benefits from their own education, why shouldn’t they pay most of the cost?

How big are these benefits? According to the 1996 Census, the average income among Canadians with a university degree is about $42,000 whereas the average income for Canadians with only a high-school diploma is only $23,000. With that kind of annual premium to a university education, potential students should be as prepared to borrow to get a university degree as they are to borrow for a car or a house.

But this brings us to the real fly in the ointment. Just imagine an 18-year old student with no assets walking into a local bank and asking for an $80,000 loan to finance four years of university. If the bank manager is any good, the student will walk away disappointed—such a loan is just too risky. This is where government can play a useful role in providing student loans. And with tuition fees that are double the current ones, student loans will take on a whole new level of importance. What we need, however, is a student-loan program that is not only bigger but also better than the current program. One option that is worth considering uses income-contingent loans. The government makes a loan to a
student for, let’s say, $80,000 over the course of a four-year program. The student then commits to paying back some fraction, say 5 percent, of his post-graduation income each year for a specified number of years, say 20. If the student earns a high income, the government may more than cover its costs; if the student earns only a low income, the government may lose money. Over a large number of students, however, such a system could be designed so that the government breaks even on its overall portfolio of student loans.

This proposal of higher tuition fees with expanded student loans has a number of advantages over the current system. First, universities will receive the funds they so desperately need. Second, students will face more of the full cost of education and so will think more carefully about attending. Those who are likely to waste their time (and believe me, there are many who do so) will be more likely to do something else. Third, taxpayers will no longer be footing so much of the bill. Instead, they can devote public money toward the things that really do benefit the public.

But we shouldn’t worry now about one specific proposal. Instead, let’s start the general discussion about the funding of Canadian universities. Let’s recognize the fact that they need money if they are to survive. Let’s also recognize the political obstacles to either raising taxes or cutting back other programs. Finally, let’s seriously consider significantly raising tuition fees and simultaneously redesigning the student-loan program. Let’s save Canada’s universities—before it’s too late.