University of Manitoba FACULTY ASSOCIATION

NEWS & VIEWS

MARCH 2011

Should Universities Become Charities?

On February 10, 2011, a full page advertisement appeared in the Winnipeg Free Press. It was entitled *"Encouraging charitable giving while reducing the deficit: facilitating gifts of private company shares and real estate."* One of the signatories was University of Manitoba President David Barnard. This document asserts as true a number of very controversial economic policy claims consistent with Conservative Party policies and ideology.

One claim is as follows: *"Commendably, the upcoming budget is expected to focus on reducing the deficit primarily through spending restraint, rather than tax increases or reduction in transfer payments to the provinces. Given this focus it will be difficult for federal and provincial governments to increase funding significantly during the next ten years for health care, education, social services and arts and culture. However, the demand for the vital services provided by our not-for-profit-sector will continue to grow, particularly for health care as our population ages."*

President Barnard seems to have missed a key feature of the conservative position with respect to taxes. The Conservative Government of Canada has decided that the deficit could be fought by cutting corporate taxes and by reducing funding to the public sector and to arts and culture.

This policy is problematic, since a major disadvantage of tax cuts for the wealthier and for corporations is that they often result in the retained revenue finding its way to investment outside our borders or into increased consumption of luxury goods from abroad. By contrast, economists estimate that infrastructure investment will have five times the positive impact of Gross Domestic Product (GDP) of corporate income tax cuts. Virtually all such government spending occurs inside our borders and improved infrastructure contributes both to long term productivity and a reduction in public debt. Capital gains tax cuts would have less than one-quarter of the positive effect on GDP that government spending on infrastructure would have.

Nor is the current public debt situation as alarming as the ad suggests. Public debt as a percentage of GDP in Canada was significantly higher in 1947 than it is today. That debt was reduced dramatically by the 1970s, not by cutting taxes and reducing spending but in part by increasing spending on education, infrastructure, health care, and research and development. The effect was to increase the GDP and consequently reduce the debt to a fraction of what it was before.

As for the need for corporate tax cuts, according to Russell Investments (Globe and Mail, October 29, 2010), corporate cash balances have risen 18% since the end

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UMFA AGM

2:00 pm

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Marshall McLuhan Hall

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of 2007—an increase that the investment firm calls "staggering." Companies are now sitting on $340-billion in cash and short-term deposits. Meanwhile, the government proposes to cut government spending, shifting onto the ordinary taxpayer the burden of both taxes and reduction in services.

As for the prediction that there will be no increased funding for social programs, the arts, or education for the next decade, this might well be true if the government pursues the misguided policy of tax and program cuts that the signatories find so "commendable".

The ad also claims that: "*The government can capitalize on the enormous success of the capital gains tax on gifts of listed securities by expanding the tax exemption to include gifts of private company shares and taxable real estate.*"

It is interesting that the signatories of this document argue that in order to protect the not-for-profit sector, the solution is to allow the private sector to use its untaxed wealth and profits to determine the infrastructure and operating investment to be made in institutions such as the public universities. If there is no macroeconomic advantage to this policy alternative, one might ask why not have the government provide adequate funding for public sector institutions? And is it even reasonable to suppose that corporate donations and gifts of private companies' stock and property would make up for the support of public institutions that only government can and should provide? Of course, by taking this position the signatories let the government off the hook for meeting these essential public sector needs.

The signatories to this ad, including President Barnard, have supported an uncritical neo-liberal approach to the current fiscal situation and placed themselves publicly on the side of those who want to cut taxes and reduce public expenditures on education. Instead of the proper public funding of post-secondary education, we are left with the "charity model" where public institutions like universities beg the private sector for the gift of uncollected taxes—gifts that typically come with strings attached that determine the allocation of resources at public institutions.

And when the "charity model" fails to meet the university's needs, as it most certainly will, how will the shortfall be met? It is unlikely that the funds will come from the government. After all, the President is already on record as commending a Conservative government that is opting to attack the deficit through tax cuts and reducing public expenditures, including those to universities. The answer, presumably, will be ever increasing tuition fees, larger classes, underfunding of programs, contracting out, larger numbers of sessional instructors, and little or nothing for salary increases.

We should be saying no to austerity and loss of control in our public institutions and pressing governments at all levels to meet their responsibilities for the provision of adequate funding. Instead, President Barnard has taken the wrong side in one of the great economic debates of our time. Unfortunately, the students, faculty and other staff of the University of Manitoba are likely to pay the price for this in the loss of both funding and institutional independence.

What is the Confucius Institute?

Terence Russell, Asian Studies Centre

In November 2007, the University of Manitoba entered into an agreement with Navitas, a for-profit multinational, to establish a Navitas business venture, the International College of Manitoba, here on the Fort Garry Campus. It was a deal that was signed before the university community knew it was even under consideration. The administration is now pursuing yet another "opportunity", selling a university platform to a foreign government who will "educate" our students. The following article by Terence Russell describes Confucius Institutes and the threat they pose to our campus.

At the March 2nd meeting of the university Senate, UMFA President Cam Morrill asked the university administration about an initiative to establish a Confucius Institute (CI) on our campus. David Collins, Vice-Provost (Academic Planning & Programs) replied that negotiations were indeed underway and that Extended Education had been "encouraged to explore opportunities, and an association cannot be ruled out." I would like here to offer our Members a brief summary of what the CI is, in hopes that a more informed discussion may be undertaken about the advisability of inviting this organization to our campus.

The Confucius Institute is an initiative of the government of the Peoples' Republic of China (PRC). It is administered directly by the Office of Chinese Language Council International (Hanban for short) and governed by a group made up of members from a variety of state ministries. The primary role of the CI is to provide instruction in Chinese language and culture abroad. The Beijing government has reportedly allocated $10 Billion USD to the project which it hopes will promote a better understanding of China, as well as brighten the image of the PRC government. This latter objective locates the CI within the "soft power" or "charm offensive" strategy recently pursued by the Beijing government.

The CIs have been likened to other cultural agencies such as the Alliance Française and the Goethe Institute. However, similarities are limited due to the fact that CIs are generally located on university campuses rather than in the community at large. All CIs involve a partnership with a university in China. Teaching staff is provided free of charge by the Chinese partner, while funding for China-related activities is provided by the central government. Perhaps most importantly, unlike the European models which operate at arm's length from their national governments, the CIs are directly administered, funded and supervised by the central PRC government. The constitution of the CI stipulates that, "all institutes must use the unified set of teaching materials supplied by the Head Office," and all CIs must, "accept both supervision from and assessments made by the headquarters."

To date, most CIs have been located in universities and colleges that do not have functioning programs in Chinese language and culture. Very few first-rate universities have become home to CIs, and where they have, faculty have often not been fully consulted before contracts were signed. This has led to much controversy. In the case of the University of Manitoba, where credit courses in Chinese language and culture have been offered since 1987, a memorandum of understanding was signed and a delegation sent to China for negotiations with CI authorities before any faculty were consulted.

For the record, the full-time faculty of the Asian Studies Centre are unanimously

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opposed to the CI project. The reasons are firstly, the PRC government is noted for its suppression of information sharing of all kinds, and CI instructors are prohibited from discussing sensitive topics, notably Taiwan, Tibet, Tian'anmen and Falun Gong. Such restrictions run contrary to our principles of academic freedom, and would be a violation of the rights of many members of our community. Secondly, the PRC is an authoritarian regime widely recognized as one of the most egregious violators of basic human rights in the world today. We wonder how housing an agency of that government on our campus is consistent with President Barnard's Strategic Planning Framework which designates human rights as an area of special concern. Finally, there is no precedent for allowing any national government to run its own instructional programs at U. of M. We believe that hosting a CI would run directly contrary to our principles of academic freedom, autonomy and integrity.

Further Reading:

May, Glenn Anthony. "Confucius on the Campus: China buys a sympathetic view in academe. *The Asia Sentinel* , 4 March 2011. http://yaleglobal.yale.edu/content/confucius-campus

Nathan, Andrew J. and Scobell, Andrew. "Human Rights and China's Soft Power Expansion" *China Rights Forum*, No. 4, 2009. http://www.hrichina.org/public/search?q=soft+power

Paradise, James F. "China and International Harmony: The Role of Confucius Institutes in Bolstering Beijing's Soft Power" *Asian Survey*, Vol. 49, No. 4 (Jul. - Aug., 2009), pp. 647-669.

Starr, Don "Chinese Language Education in Europe: the Confucius Institutes," *European Journal of Education Volume 44, Issue 1, March 2009. Pp. 65-82.*

Committee Members Needed!

The UMFA Women's Committee is being re-constituted with Nancy Hansen, Disability Studies, as Chair. The Committee will be reviewing its mandate and considering broadening it to include the issues of other equity-seeking groups. We need your energy and ideas! All UMFA Members are welcome to sit on this committee. If you are interested, please contact the UMFA office at 474-8272. Remember that service in the Association is considered service to the University community.

The most recent issue of the CAUT Bulletin refers to a CAUT report on the gender pay gap for academic staff in Canada and refers to the advances made in narrowing the gap between salaries in the 20 year period between 1986 and 2006. The full CAUT report can be found at www.caut.ca/uploads/EquityReview5-en.pdf and is well worth reading. Because of limitations in StatsCan data, it is not possible to determine to what degree the salaries of racialized, Aboriginal and academics with disabilities lag behind. CAUT continues to advocate for the reporting of demographic data that would make such comparisons possible.

CAUT recently established an Equity Committee whose mandate is to advise the Executive on all diversity concerns and it may be time for UMFA to consider a similar structure.

Chocolate in my Peanut Butter! Resource Optimization, Benefits and The Employer of First Choice

A series of commercials in the 1970s and 1980s featured two people, one eating peanut butter and the other eating chocolate, who collide. The happy accident results in a mixing of the two ingredients that becomes Reese's Peanut Butter Cups, "two great tastes that taste great together."

In 2011, the University of Manitoba's Strategic Planning Framework is bringing together external consultants to help the UM improve its infrastructure and become an employer of first choice. Infrastructure improvement will be achieved in large part by Optimization of Resources, the beginning letters of which figure prominently in the acronyms ROSE and OARs. The "employer of first choice" designation will be achieved, in part, through an "Appreciation of Benefits."

What would happen if Optimization collided with Benefits? UMFA has argued for years that these two ingredients could taste great together. Our recipe follows.

Why do employers offer benefits to employees? Wouldn't it be easier for employers to pay the highest salary possible and allow employees to buy the benefits they want from an insurance company of their choice? Employer-provided benefits have two significant advantages over allowing (or forcing) employees to buy their own benefits. First, grouping employees together as a single benefit-buying unit allows for economies of scale that frequently result in lower administrative costs and, therefore, more economical benefits. Second, and probably more importantly, the federal government makes available substantial tax incentives which encourage employers to provide benefit plans.

A simple example illustrates this second advantage. Suppose that an employee earns $100,000 per year and wants to purchase a health benefits package from an insurance company that costs $1,000 per year. Suppose as well that the employee pays a flat income tax of 40% of gross pay. The employee's net take-home pay after paying taxes and the health benefits insurance premium would be $59,000 as shown in column A below:

	A Employee pays for benefits	B Employer pays for benefits	C Employer and Employee split cost of benefits
Gross compensation	$100,000	$100,000	$100,000
Less: Cost of employer-provided benefits	0	(1,000)	(500)
Taxable income	100,000	99,000	99,500
Less: Income tax	(40,000)	(39,600)	(39,800)
Take-home pay	60,000	59,400	59,700
Less: Cost of benefits paid by employee	(1,000)	0	(500)
Take-home pay after tax and benefits	$59,000	$59,400	$59,200

Suppose instead that the employer provides these health benefits for the employee. The total $100,000 salary now becomes $99,000 in gross pay for the employee, plus health benefits worth $1,000 (the cost of the benefits would typically be less if provided by the employer because of the economies-of-scale argument above, but for simplicity we ignore that here). Net take-home pay after taxes and benefits is now $59,400 (see column B above).

It makes no difference to the employer how the total compensation is paid - $100,000 in gross pay vs. $99,000 in gross pay plus $1,000 in benefits comes to the same thing. The employee, however, has $400 in additional net pay after tax and

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Chocolate in my Peanut Butter! Resource Optimization, Benefits and The Employer of First Choice (continued)

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benefits if the employer provides the benefits. This is because salary is taxable in Canada while employer-provided health benefits, in many cases, are not. If the employee buys his/her own benefits directly from an insurance company, however, he/she receives no tax break. If optimization means acquiring desirable goods and services at the lowest net cost, it is clearly optimal to have the employer pay for most health benefits.

How optimal are the UM benefit plans? Supplementary health is split equally between the UM and its employees. Adapting the example above, the UM approach would leave the employee with $59,200 in take-home pay after taxes and benefits (see column C above). Clearly, the UM approach is sub-optimal compared to the case where the employer pays all costs.

The cost of the Long-Term Disability (LTD) plan is also split equally between the employer and employee. Is that also a sub-optimal arrangement? Yes, but for a different reason. Under Canadian tax law, LTD benefits are not taxable if the premium cost is borne entirely by the employee. If any portion of the cost is covered by the employer, as is the case at UM, any LTD benefits received by the employee are fully taxable. An UMFA analysis from 2007 showed that an UMFA Member going on LTD could see his/her take-home pay drop by as much as 28%. If UMFA Members paid all of the LTD premiums themselves, the average UMFA Member going on LTD would see virtually no difference in take-home pay.

Isn't all of this just a big shell game with rules set by the federal government? Absolutely. But it is a game that, if played correctly, could provide better benefits to UM employees at lower cost to the employees. The correct strategy is to have the UM pay for 100% of the cost of supplementary health and the UM employees pay for 100% of the cost of the LTD plan.

The tax efficiency described here is necessary to provide optimal benefits to UM employees, but is not sufficient. The savings that the administration would realize from employees paying the full LTD premium must be funneled into other benefits. UMFA continues to press for smarter and more equitable ways of using the money the university spends on employee benefits. One of the first steps is to get the UM's Optimization consultants to "run into" its Employer of First Choice consultants.

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