



POST-SECONDARY EDUCATION IS A SMART ROUTE TO A BRIGHTER FUTURE FOR CANADIANS

Standard of Living and Education Linked to High Degree

EXECUTIVE SUMMARY

Canada's post-secondary education (PSE) system is expected to play an increasingly critical role in enhancing the nation's standard of living. A comprehensive strategy to help universities and colleges deliver on these expectations is, however, not fully in place. Progress has been made since the beginning of the decade, when, for instance, total real per student funding of university education was 20 per cent lower in 2002 than it had been in 1980. In 2006, total real per student funding of university education was down 16 per cent relative to 1980.

This report marks the second major TD Economics paper on post-secondary education. In 2004, *Time to Wise Up on Post-Secondary Education in Canada* noted that PSE had fallen victim to the budget cuts of the mid-1990s, and placed the nation at a competitive disadvantage in an era when successful economies would be knowledge-based. Part of the loss in Canadian government funding of higher education was made up by rapid increases in tuition fees. But this has created its own set of challenges including impediments to improving access to post-secondary education.

Under Pressure

Specifically, PSE is under significant pressure to meet five demands: educate an ever-rising percentage of the population; help equalize economic and social outcomes across the population; provide an important component of lifelong learning; be an engine of innovation; and deliver quality education in an efficient manner. There are a wide range of challenges in delivering on each of these expectations.

Provincial governments will need to find the resources to educate a rising share of the Canadian population. The estimated additional public financial resources required relative to 2009 spending would be expected to rise from approximately \$400 million in 2010 to \$2.7 billion by 2016

and to thereafter fluctuate, but remain within a \$1.4 billion to \$2.7 billion range until 2030. Provinces that are forecasted to experience a higher growth in enrolment, such as Ontario and Alberta, can be expected to face higher-than-average funding pressures.

Moreover, access to PSE is unequally distributed across various socio-economic groups, with marginalized groups posting significantly lower participation rates on average relative to other groups. Demographics, family and high school engagement represent some of the most influential factors in participation levels. Aboriginal people and some immigrant communities are under-represented in PSE. Students from families where parents did not attend PSE or do not value it much are also far less likely to attend PSE. The same is true for students with weak scholastic achievements, especially if combined with low family income.

Financial And Non-Financial Barriers

Access to PSE for marginalized groups is restrained by a combination of financial and non-financial barriers. Simply put, many students cannot afford PSE. There are substantial resources applied to financial assistance. But it is not well targeted by income. Indeed, with much of the money going to savings vehicles (such as Registered Education Savings Plans) and tuition credits, there are important elements where support rises with income. The current system does not make adequate distinctions between students' financial situations.

Other challenges relate to a deficiency in financial literacy. Research suggests that many Canadians have a misconstrued perception about how to finance PSE. Research also suggests that individuals from lower income families tend to overestimate the cost of PSE education and underestimate the return on investment, ultimately discouraging greater participation.

One of the most widely cited non-financial barriers for



students is lack of motivation. The main challenge lies in identifying its main determinants and isolating the impact of this from other variables, such as family income. Parents, for instance, who did not attend PSE are unable to draw on their own PSE experiences and be inspirational to their children.

Canada has a surprisingly high dropout rate from high school. More than one million individuals between the ages of 25 and 44 had not completed high school by 2006. Reducing this number will have a significant impact on various under-represented groups. For instance, the difference in PSE participation rates between Aboriginals and the total population is almost completely driven by differences in high school completion rates. Upon graduating from high school, the PSE participation rate for Aboriginals was essentially the same as the total population, although Aboriginals are more likely to attend college than university.

Breaking Down The Barriers

Access to PSE for under-represented groups of individuals can effectively be improved if the financial assistance provided is targeted towards those in greatest need. Parents will also need to pre-save for their childrens' PSE aspirations and view this as being ingrained in their budgetary allocations as much as saving towards their retirement.

Vast strides in financial literacy will need to be achieved for the Canadian population in general but more importantly, for under-represented groups of society. PSE institutions will need to be more involved in high schools to inform parents and teachers of the many opportunities and requirements of attending their institutions. Initiatives that provide at risk students with the intellectual and emotional support they require beyond normal school hours must be supported.

Increasingly, workers will have to either remain in contact with higher education institutions or go back at various intervals, either to help in adapting to changes within a career or to facilitate a shift to a new career path. Lifelong learning will hence be: 1) forming a growing part of the demand for PSE institutions to serve 2) altering our perception of PSE as being for the 18–24 age cohort almost exclusively and 3) if the trend is increasing, so too will the demand for classroom space. The gradual decline in youth PSE enrolment beyond 2016 will, however, allow the adult population to take greater advantage of existing educational resources.

Universities and the private sector must work together to more effectively commercialize the research being done

on campuses. The ability of Canadian universities to commercialize remains very weak as research suggests that American universities perform about 14 times as much research as Canadian universities, but receive 49 times as much licensing income – a key indicator of the value of innovations. A good deal of the onus rests on the private sector as universities often complain that the private sector receptor capacity for the R&D is weak.

Institutions will be hard pressed to raise the quality of teaching in the coming decades. PSE has responded to restrained real funding by increasing class sizes and decreasing the number of full-time teachers, as well as innovating less in the classroom. This is having an impact on student engagement and, in turn, the system's ability to properly prepare graduates for the modern workforce. The challenge is to raise the quality of teaching and education experience all within a constrained budgetary environment.

Research suggests less research-intensive universities outscore their larger research-intensive institutions on a variety of measures of students' engagement in academic programs. A number of factors explain the difference. For instance, professors at research-intensive universities do not allocate much time to teaching. As such, an argument is made to create greater "product differentiation" between research-intensive and teaching-intensive universities. Some institutions would become specialized in undergraduate teaching with full-time well-qualified professors and others would become more specialized in research.

These suggestions are all well worthy of consideration. We recognize that PSE is a strength for Canada's economy and its sociological profile. However, it could, and indeed must, be an even greater asset to advance the wealth of our nation in the future.

Don Drummond
Economic Advisor
416-982-2556

Craig Alexander
SVP and Chief Economist
416-982-8064

Shahzad Mobasher Fard
Research Analyst
416-944-5729