

Fiscal Federalism and Post-Secondary Education

Submission to the House of Commons Standing Committee on Finance

May 2023

The Canadian Association of University Teachers (CAUT) is the national voice of academic staff. CAUT represents more than 72,000 teachers, librarians, researchers, and general staff at Canadian public post-secondary institutions including universities, colleges, and polytechnics. CAUT works in the public interest to improve the quality and accessibility of Canada's post-secondary education.

Summary of Recommendations

1. Provide transparent, predictable, and adequate federal cash funding to the provinces and territories in support of public post-secondary education, through a National Post-Secondary Education Transfer, discrete from the Canada Social Transfer, with agreed conditions established through federal legislation or multilateral or bilateral agreements.
2. Work with the provinces and territories on a plan to improve access, affordability, and quality of public post-secondary education in Canada.
3. Make permanent the Post-Secondary Strategic Investment Fund to maintain and expand green campus infrastructure, including much needed student housing.
4. Establish a federal post-secondary education secretariat or branch within the federal government to facilitate intergovernmental collaboration and coordinate initiatives such as research and science, student assistance, data, and innovation.
5. Create a National Advisory Council on Post-Secondary Education and Training.

Introduction

Post-secondary education (PSE) and research play a critical role in advancing the economic, social, cultural, and political development of Canada. The federal government supports public PSE in Canada through myriad mechanisms such as tax measures, grants and loans to students, research funding, and the Canada Social Transfer (CST).

[T]he federal government has a role in ensuring that the country has adequate supplies of highly qualified personnel, that there is some equality of opportunities for young Canadians regardless of where they live, and that there is a development of the knowledge required for economic growth, prosperity, and international competitiveness.

-Post-Secondary Education: An Imperative for Canada's Future, a report from the Library of Parliament

The CST is a block transfer payment from the federal government in support of early childhood education, childcare, social services, social assistance, and PSE. There is no process to track the CST once it enters provincial accounts nor the proportion of the CST spent on the various sectors it is meant to support.

The percentage allocation of the CST to PSE is notional. In the 2007 federal budget, the government announced that it would increase the CST by \$800 million with the objective of strengthening PSE. The notional share of the CST for PSE rose from 25% of the transfer to 30.7%.¹ Under these assumptions, the federal transfer through the CST to PSE totaled \$4.75 billion in 2021-2022. University and college expenditures in 2021 totalled over \$50 billion.²

The post-secondary education system has not recovered from the cuts, an estimated \$2.29 billion, made when the federal government created the Canada Health and Social Transfer in 1996. On a per student basis, federal cash contributions to post-secondary education have fallen by 39% in real terms since the early 1990s.

To keep pace with inflation and enrolment, the PSE cash transfer would need to exceed current contributions by at least \$3 billion with a minimum escalator in line with a three-year moving average of nominal GDP, with a floor of 3% per year.

State of PSE in Canada

Since the notional federal top-up to PSE through the CST in 2007, provincial funding for operating grants has been stagnant, decreasing by 1.8% between 2009-10 and 2020-21 (in constant dollars).

¹Government of Canada. (2007). *The Budget Plan 2007*. pp.129 and 358.

²Statistics Canada (2022). Expenditures of universities by type of expenditures and funds. Table: 37-10-0027-01 and Expenditures of colleges by type of expenditures and funds Table: 37-10-0029-01

Meanwhile, tuition fee revenue has increased by 75% over the same period. Between 2001-02 and 2020-21, the proportion of operating revenue provided by all governments decreased from 61.7% to 47.3%.

PSE is at a crossroads in Canada. Since 2017-2018, private sources of funding, primarily in the form of tuition fees paid by students and their families, represent a majority of the revenues.

The impact of chronic public underfunding is seen on affordability, access, and quality of public PSE in Canada. An overview of the issues is found in Appendix A.

The 2024 CST review offers a critical opportunity to strengthen our public post-secondary education system.

Recommendations

1. Provide a transparent and predictable level of federal cash funding to the provinces and territories in support of public post-secondary education through a National Post-Secondary Education Transfer, discrete from the Canada Social Transfer, with agreed conditions established through federal legislation or multilateral or bilateral agreements.

There is no process to track the CST once it enters provincial accounts to determine how much of it is spent on the target sectors – childcare, post-secondary education, and social services.

As noted by the Parliamentary Budget Office in its 2016 report, *Federal Spending on Post-Secondary Education*, accountability is lacking:

“The CST is not considered a program and, therefore, it is not subject to periodic reviews or evaluation every five years where its relevance and effectiveness must be demonstrated. Moreover, the legislation³ that governs federal-provincial fiscal arrangements only requires periodic reviews of the Canada Health Transfer.”

A dedicated PSE transfer would provide the needed predictability and transparency that federal spending is used for its intended purpose.

³Federal-Provincial Fiscal Arrangements Act, Revised Statutes of Canada (1985, c. F-8) (2016).

The Council of the Federation, following a report from its Working Group on Fiscal Arrangements, called for a restoration of federal funding in the Social Transfer in 2012. At this time, it was noted that the CST would need to grow to \$19 billion by 2023-24.⁴ It is currently at just over \$16 billion. If the CST had an escalator to keep up with notional GDP, like the Canada Health Transfer, this would have seen the CST grow by an additional \$1.9 billion since 2017-2018.

2. Work with the provinces and territories on a plan to improve access, affordability, and quality of public post-secondary education in Canada.

Unlike other areas of shared priority supported by federal transfers such as health care, childcare, housing, or public transit, there is no framework, plan, or strategy for PSE in Canada. CAUT has long called for the establishment of pan-Canadian principles for post-secondary education, as currently exist in health care. Such principles should include public administration, comprehensiveness, and accessibility. The principles agreed for the multilateral framework agreement on early childhood education are inspiring for PSE as well: high-quality, accessible, affordable, flexible, and inclusive.

Data collection and sharing should also be agreed upon as currently there is a paucity of national data to measure progress on affordability, access and or even the size of the post-secondary education workforce. For example, there is no national data set on college tuition, provincial student loan data, or student demographic data beyond gender.

3. Make permanent the Post-Secondary Strategic Investment Fund to maintain, expand and green campus infrastructure, including much needed student housing.

The federal government has twice in the last 15 years provided a fund to which post-secondary institutions can apply directly to assist with infrastructure. Universities and colleges are anchor institutions providing campus and community housing, recreation, classroom, and lab space. There is an acute need for student housing in many communities and for greening, maintaining, and modernizing other infrastructure.

⁴Gauthier, James. (2012). *The Canada Social Transfer: Past, Present, and Future Considerations*. The Library of Parliament.

Most recently, the federal government created the Post-Secondary Institutions Strategic Investment Fund, a \$2 billion program announced in 2016. This Fund, like the Public Transit Fund, should become permanent. A source of ongoing and stable funding is essential to allow for careful and long-term project planning and delivery.

4. Establish a federal post-secondary education secretariat or branch within the federal government to facilitate intergovernmental collaboration and coordinate initiatives such as research and science, student assistance, data, and innovation.

The federal government lacks capacity to provide policy analysis on PSE, despite its involvement through the Social Transfer, tax programs, Canada Students Loans and Grants, etcetera. There is no education minister or department, as there is, for example, with health. Responsibilities related to PSE expenditures involve no less than 10 departments, but these programs often operate in silos.⁵ A federal secretariat on PSE would build capacity within the government and engage stakeholders to provide policy analysis to support a Canada-wide PSE system.

The secretariat would negotiate and manage the agreements with provinces and territories, help to identify data gaps, monitor progress, and inform evidence-based policy development.

5. Create a National Advisory Council on Post-Secondary Education and Training.

The National Advisory Council will provide third-party expert advice and a forum for consultation on issues and challenges facing PSE in Canada. The Council will reflect Canada's geographic, cultural, linguistic, and socio-economic diversity and would include experts from across the sector.

The Council would be supported by a federal secretariat on PSE and serve as a focal point for PSE across the Government of Canada.

Conclusion

Federal transfers to the provinces and territories for post-secondary education are essential to support a thriving public system that is affordable, accessible, and of the highest quality. However, transfers have declined over the decades, and have not kept pace with demand or inflation.

It is time for an improved transfer to provincial and territorial governments that is transparent, predictable, and accountable to strengthen PSE. A permanent fund for institutions is also recommended to assist in national goals of housing affordability and climate change mitigation.

⁵Departments with PSE-related programs or responsibilities include:

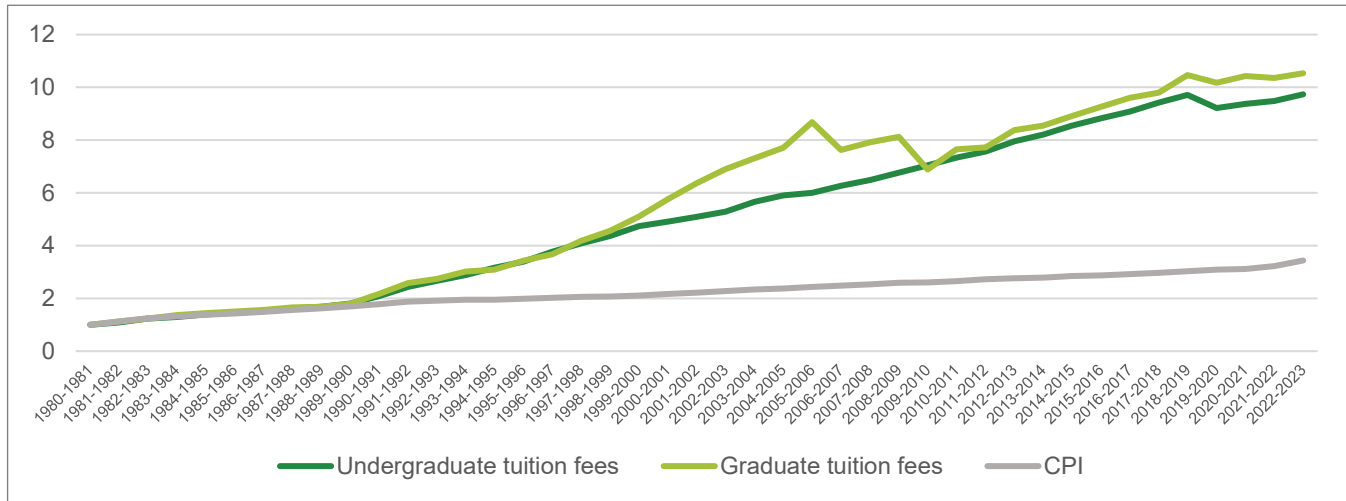
Employment and Social Development Canada, Finance Canada, Global Affairs Canada, Health Canada, Heritage Canada, Indigenous Services, Immigration, Refugees and Citizenship Canada, Innovation, Science and Economic Development Canada, Statistics Canada, and Women and Gender Equality Canada.

Appendix A: Why we need a national plan for PSE in Canada

Affordability

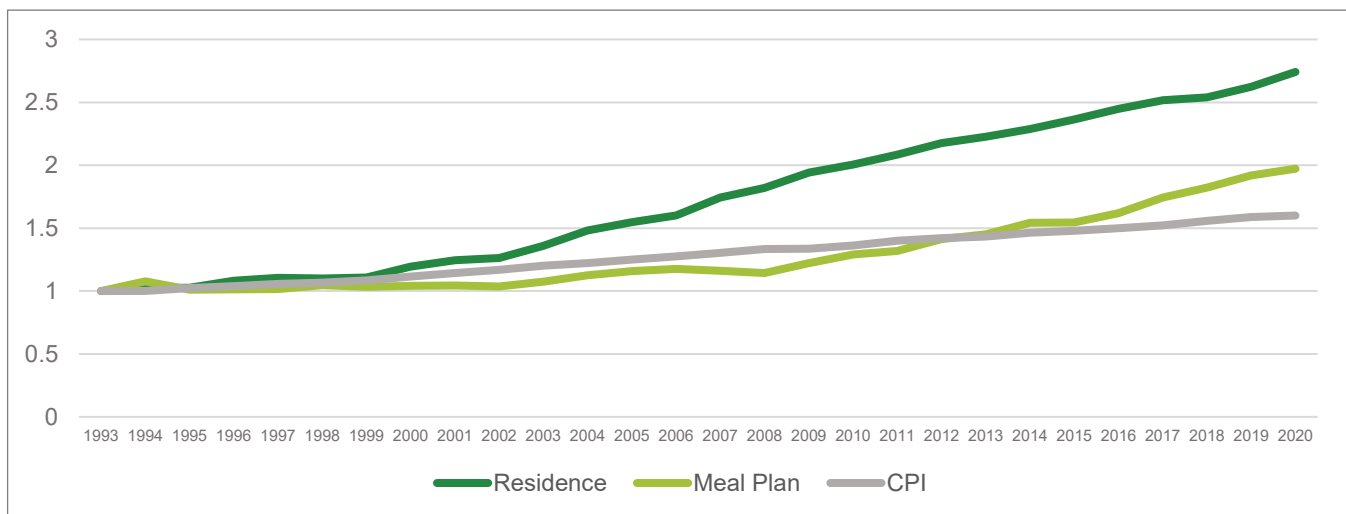
Tuition fees have increased significantly faster than other goods—including housing, transportation, and shelter. Households are spending a much higher proportion of their income on post-secondary education, with lower income households bearing these increases to a greater extent.

Figure 1: Indexed average weighted fees for full-time Canadian students and CPI



Between 2000 and 2020, average undergraduate tuition fees have increased by 115% and average graduate tuition fees have increased by 89%. Meanwhile, overall consumer prices have increased by just 44%.

Figure 2: Indexed average campus living and accommodation costs and CPI, 1993-2020



The result of rising costs means that one out of two students graduate in debt, the average of which is \$28,000, and take approximately a decade to pay off their debt. The federal government has taken some modest steps to address rising fees and debt through changes to the Canada Students Grants and Loan program. However, in most provinces, the cost of an education keeps going up.

Accessibility

Canada has a high level of post-secondary educational attainment, the highest in the OECD. One factor is that Quebec's CEGEPs are included in Canada's PSE participation rate data. Although the overall demand for post-secondary education is relatively insensitive to price changes, there is evidence that increasing tuition fees has a negative effect on enrolment rates for low-income students.⁶ High costs also lower completion rates.⁷ This education inequality has an impact on economic and social mobility.

- Only 38% of people with Indigenous identity aged 25-64 have a college or university credentials, compared to 58% of non-Indigenous Canadians within the same age bracket.⁸
- The gap between postsecondary graduation rates for Black youth and other youth remains even after accounting for differences in socioeconomic and family characteristics.⁹
- Whereas eight out of ten 19-year-olds from families in the top after-tax income quintile enrolled in post-secondary programs, the enrolment rate for those in the bottom income quintile was less than five out of ten in 2014.¹⁰
- Students with learning disabilities, mental health disabilities and physical disabilities are the least likely to participate in any type of postsecondary program, especially programs at or beyond the bachelor's level.¹¹
- Women make up 56 per cent of students but account for 66 per cent of participants in the Canada Student Loan Repayment Assistance Plan.¹² Racialized students and students with disabilities are also more likely to have student loans and to take longer to repay student debt, although this data is not systematically collected.

Quality

Precarious work and underemployment are on the rise with an estimated one out of three academic staff on contract, compensated only for teaching. As a consequence, our research and science capacity is eroding. Assistant professor is the rank at which early career researchers are hired, yet the number of these positions declined by almost 20% in the last decade. This also impacts the student-faculty ratio. At 25 of Canada's largest universities there is an average of 23% more students per full-time faculty member than in 2000. There is also a demographic spike of younger people on the horizon. The number of 18-year-olds is about to increase nationally by 20% in the next five years.¹³ This could further exacerbate teacher-student ratios, student housing shortages and staff workloads and research outputs.

⁶Hajer, Jesse and Zac Saltis. (2018). Rising Tuition: Implications for Access and Career Choice for Manitoba Students. Canadian Centre for Policy Alternatives – Manitoba.

⁷Cavalcanti Guerra, Lenin and Ken S. Coates. (2019). What universities can do to keep students from dropping out. *The Conversation*; Vignoles, Anna & Powdthavee, Nattavudh. (2009). The Socioeconomic Gap in University Dropouts. *B.E. Journal of Economic Analysis and Policy*. 9. 10.2202/1935-1682.2051.

⁸Statistics Canada (21.) Table 98-10-0414-01 Highest level of education by major field of study and Indigenous identity: Canada, provinces and territories, census metropolitan areas and census agglomerations with parts.

⁹Michalski, J.H. & Cunningham, T. & Henry, J. (2017). The diversity challenge for higher education in Canada: The prospects and challenges of increased access and student success. *Humboldt Journal of Social Relations*. 66-89.

¹⁰Turcotte, Martin. (2016). Results from the 2016 Census: Education and labour market integration of Black youth in Canada. Statistics Canada.

¹¹Frenette, Marc. (2017). Postsecondary Enrolment by Parental Income: Recent National and Provincial Trends. *Economic Insights*. Statistics Canada.

¹²Chatoor, K. (2021). Postsecondary Credential Attainment and Labour Market Outcomes for Ontario Students with Disabilities. Higher Education Quality Council of Ontario.

¹³Statistics Canada. (2019) Postsecondary enrolments, by registration status, institution type, status of student in Canada and gender; and Employment and Social Development Canada. 2018 to 2019 Canada Student Loans Program Statistical Review.

¹⁴Statistics Canada. Table 17-10-0057-01 Projected population, by projection scenario, age and sex, as of July 1 (x 1,000).