CANADIAN EDUCATION PROJECT

Canadian Budget Commentary 2009

The Canadian Education Project is part of the Higher Education Strategy Associates.

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Introduction

On January 27, 2009, against the backdrop of one of the steepest declines in economic activity since the Great Depression, Federal finance minister Jim Flaherty rose in the House of Commons to deliver what many commentators have called the most important budget of the last fifteen years. Back in 1995, then-Finance Minister Paul Martin set the country on a path of escaping over 25 consecutive years of budget deficits; today, for the first time in eleven years, the Government of Canada is heading back into the red. This would have been true even had there been no extra spending (after all, a weakening economy means weakening tax revenues), but the G-20 consensus in favour of large counter-cyclical fiscal measures has induced the government to raise budget deficits to a massive $30 billion/year.

To be considered a success, the new budget measures had to meet three tests. First, they had to have clear short-term simulative effects, with little of the money available to be sent offshore or diverted into savings. Second, they had to be temporary, so as not to create permanent structural deficits. And third, they ideally would contribute to long-term prosperity by raising productivity. Our analysis of education-related measures in the budget holds the new announcements to these standards.

Infrastructure

The budget's largest education-related announcement was a commitment of up to $2.75 billion in infrastructure spending over the next two years. The announcements came in two parts:

- **Deferred Maintenance Projects.** Up to $2 billion to support deferred maintenance and repairs at post-secondary institutions across Canada, a figure which is very close to what the Association of Universities and Colleges of Canada had asked for in its pre-budget submission (albeit spread across all PSE institutions instead of just universities). Of this, 70% is earmarked for universities and 30% for colleges.

  What is very unclear at the moment is how the money will be distributed. The funds are intended to be matching funds – it would appear from the budget language that the money will not flow unless other funds – presumably in almost all cases provincial funds – can be found. That suggests that if some provinces are hesitant to put up infrastructure dollars this year, the money will be lost (though presumably, as with CFI, federal regional development money could be used if provinces do not stump up the cash). Moreover, the money will not go to just any project: the budget specifically wants to target "projects at universities that can improve the quality of research and development at the institution and projects at colleges that will strengthen their ability to deliver advanced knowledge and skills

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training". Basically, this suggests a clear bias towards laboratories and workshops over classrooms and office space.

If the money is disbursed through the provinces, challenges similar to those created by the 2005 Budget's infrastructure program (created by the budget amendment known as C-48) may ensue. In some provinces, institutions had to fight to ensure that money actually got to institutions for infrastructure in a timely fashion or at all. In Nova Scotia, for instance, C-48 money was not actually spent on one-time tuition reductions instead of infrastructure.

In general, the existence of any conditions for the disbursement of funding will tend to slow down money getting to the institutions. But there are additional questions around the science and technology and R & D focus of the conditions. Certainly there are a number of "shovel-ready" repair projects at universities and colleges that would fit these conditions, but there are also other less glamorous deferred maintenance projects like building heating systems or classroom repairs that may not fit the stated pre-conditions for funding allocations.

- **NEW LABORATORY CONSTRUCTION.** In addition to money for deferred maintenance, the budget also contains an additional $150 million for this year for this year's Canada Foundation for Innovation (CFI) competitions and $600 million for new competitions to be rolled out by the end of 2010.

With the exception of the second tranche of funding to CFI, (which probably will not result in any new construction until 2011), the PSE infrastructure initiatives announced in this budget heading appears to meet the three criteria of being stimulative, limited in duration and likely to have longer-term productivity gains. However, making the funds conditional of contributions from provincial governments that are facing problems of their own may mean inter-governmental tensions down the road

RESEARCH AND GRADUATE STUDENT FUNDING

Last year's budget focused on undergraduate support; this year's budget announced a temporary two-year, $87.5 million increase in the support available to graduate students through the Canada Graduate Scholarships program which is administered by the granting councils. This money will be split among the Natural Sciences and Engineering Research Council of Canada (NSERC), the Canadian Institutes of Health Research (CIHR), and the Social Sciences and Humanities Research Council (SSHRC) at a ratio of 2:2:1, respectively (which represents the current overall split in funding between the three councils. The new money is meant to pay for 500 doctoral scholarships valued at $35,000 annually over 3 years and 1,000 one-time scholarships for students at the Master's level valued at $ 17,500 each. Scholarships in science and medicine are unrestricted in terms of subject area; SSHRC scholarships, on the other hand, will be restricted to students in programs related to business studies. This, again, is consistent with earlier Conservative policies, which have specifically avoided providing SSHRC with new funds for areas apart from business and economics.

However, the granting councils will not see an overall budget increase as a result of these scholarships. This is because the three councils, as a result of regular Program Review, will see a cumulative decrease in their funding over the next three years of $87.2 million. Thus, the new graduate scholarships are effectively being paid for as-yet unspecified reductions in other areas of research spending. Moreover, while the increase in scholarships is temporary (after two years, spending is supposed to revert back to present levels), the cut in budgets is meant to be permanent. Moreover, it is not yet clear if the cuts, like the funding increases, are distributed on a 2:2:1 basis – if they are not, then some councils will be net losers even in the short term. Given this, despite the good news headlines, there is likely to be friction between the government and the scientific community over the coming weeks.

This funding announcement is hard to credit as stimulative, since it is really just one pot of money replacing another. Its effect on productivity will only be positive if the expenditure on students raises productivity by more than the cuts in other areas will drop it. Only on the timeliness factor can this announcement be given full marks.

Investments in Training

In the last 6 months the unemployment rate in Canada has steadily increased from 6.1% to 6.6% and most private sector economists are now suggesting that unemployment will be close to 8% for much of 2009. In central Canada, the manufacturing and auto industries are taking the biggest hit for now, but the world wide slowdown is also putting a brake on natural resource extraction in the West.

Budget 2009 calls for a targeted two-year funding of $1 billion to enhance training programs offered through the Employment Insurance (EI) program by the provinces and territories. Given that not all provinces have been impacted by the poor economic climate in the same way, the new investment delivered to the provinces will be based upon the provincial share of the unemployed persons in Canada. This is expected to be of particular help those in the manufacturing, automotive, and forestry sectors . Because some Canadians - such as the self-employed and those who have been out of the labour market for some time - are not eligible for EI, an additional two-year $500 million Strategic Training and Transition Fund will be created to offer training programs for these individuals. The allocation of funds will be done in the same way as the rest of the new EI money.

With the limited amount of information available in the budget, the impact of this money on PSE is hard to gauge. Some of the funds will inevitably be used to send some workers to programs at community colleges. This money will no doubt be welcomed, but increased student numbers, at a time in the economic cycle when student numbers in colleges tend to spike in any case, will inevitably cause space constraints – the government may come to regret not permitting more classroom construction with its infrastructure money.

However, a substantial amount of this money is likely to end up in the hands of private vocational institutes, which are more flexible in their program delivery but which continue to be regulated unevenly from province to province. Previous federal efforts to use these kinds of trainers to provide large-scale retraining for people in declining industries has not shown great results. For instance, The Atlantic Groundfish Strategy (TAGS) of 1995 sought to provide fisheries workers in the Atlantic Provinces with training and counseling to participate in an industry outside of the fisheries. However, approximately 13% of all TAGS clients participated in the training aspects of the program and it took a majority of those 4 years to complete their training. The active clients in the adjustment process tended to be those younger in age, women, those expecting to be employed outside of the fishery after TAGS, and those with higher levels of formal education. The inactive TAGS clients tended to older discouraged individuals who did not see a future outside of the fishery, younger discouraged individuals with families, and fishers who expect to be in the fishery of the future. If the TAGS assessment can teach us anything about training a struggling industry, it's that the retraining of individuals needs to be done carefully and competently; emphasis needs to be placed on demographics that might be resistant to retraining, and colleges need to offer technical skills in conjunction with counseling and labour market preparation. Without the proper delivery mechanism, the $1.5 billion retraining stimulus might not reach those who need it most.

In addition to money flowing through the EI funds, considerable new monies have also been devoted to Aboriginal training initiatives. These will receive $200 million over the next 3 years. Of this, $100 million will be allocated to top-up the existing Aboriginal Skills and Employment Partnership (ASEP). The ASEP is currently run through Human Resources and Social Development Canada (HRSDC) and funds projects that aim provide comprehensive, multi-year training-to-employment for Aboriginal communities. The new money will continue to flow through HRSDC.

An additional $75 million is being allocated for a new two-year Aboriginal Skills and Training Strategic Investment Fund. This fund is aimed at providing Aboriginal

Canadians with immediate training to participate in new employment opportunities. Finally, $25 million is being allocated in 2009-10 to maintain the Aboriginal Human Resources and Development Strategy, which will be implemented in April 2010.

Overall, the investments in training meet two of the main budget criteria: they are temporary and they are stimulative. However, their effects on productivity are unknown, and the TAGS experience suggests that the provincial governments running the funds need to be very cautious in the way they distribute these training dollars.

Foreign Credential Recognition Program

The 2009 budget also allocates $50 million over the next two years to support the development of a common (i.e. pan-Canadian) framework for the assessment of foreign credentials. This comes on the heels of 2008 research led by Canadian Information Centre for International Credentials (CICIC) and another study contracted by the Canadian Tourism Human Resources Council, both of which converged on the finding that credential assessment frameworks and funding formulae to support credential assessment vary not only across Canada but also within and between institutions. These differences limit the successful economic integration of newcomers to Canada, and impede transfer credit and mobility within Canada. The allocation of new monies to support improvements in learning recognition in Canada is needed. However, if the recognition of international qualifications is to be equalized in Canada in future, the common framework that is to be developed will need to be supported by further ministerial agreements that ensure its widespread adoption not only by foreign assessment services but also by learning and training institutions. This spending does not appear to be either stimulative or time-sensitive, but it could represent a good investment in productivity if the new approaches find ways to better integrate talented immigrants into the Canadian labour market.

Apprenticeships

Possibly the budget's least-well thought out proposal related to education and training is the creation of a $2,000 Apprenticeship Completion Grant for the purpose of easing labour shortages in skilled trades. Bluntly, this initiative betrays a serious misunderstanding of the causes of non-completion among apprentices. In good times, apprentices often leave because they have already secured good jobs in their industry and fell they do not require extra training. For people in those circumstances, completion bonuses may make sense (though it would still be open to question whether $2000 would be a large enough bonus to change anyone's behavior). In economic downturns, however, the bigger threat to apprenticeship completion is job separation: apprentices losing their jobs and being unable to find new employers with whom to complete their training. At this point in the economic cycle, a grant to employers incentivizing apprenticeship completion would have been a more appropriate measure.

CONCLUSION

Well-leaked in advance as this budget was, it contained few surprises. Big investments in infrastructure are smart given the country's current economic climate, and the focus on laboratory space seems wise on balance. However, the very small net cut in granting council funding re is arguably evidence of a disconnect developing in government research policy – why invest billions in new and renovated research infrastructure if no new research funds are in the pipeline?

Big new funds for training were inevitable, but here the jury is still out. Have governments learned the lessons of TAGS and other similar re-training programs of the 1990s? If so, this investment could pay big dividends; if not, it will be a band-aid solution which merely keeps the jobless busy for a few months.

The lack of new announcements in student aid have already been denounced by some, but with net tuition being the same as it was in 2000 and a major government initiative on student aid already on the cards for the fall of 2009, it was always unrealistic to expect any movement on this file in this budget cycle. Some criticisms have been made about the lack of increases in transfer funding, but here again, transfers are not being cut: the PSE envelope within the Canada Social Transfer is rising by roughly $75 million, as previously forecast. Expecting more in a recession was simply unrealistic.

Overall, the PSE community should on balance be happy with this budget. $2.75 billion in infrastructure is a simply massive investment, and its effects will be felt and appreciated at campuses across the country. The lack of new funds for expanded research efforts is disappointing, and reduces what could have been a home-run of a budget to perhaps a ground-rule double. But there will be many countries whose PSE sectors will experience a great deal worse over the coming twelve months; in comparison, Canada's colleges and universities are getting a pretty good deal.