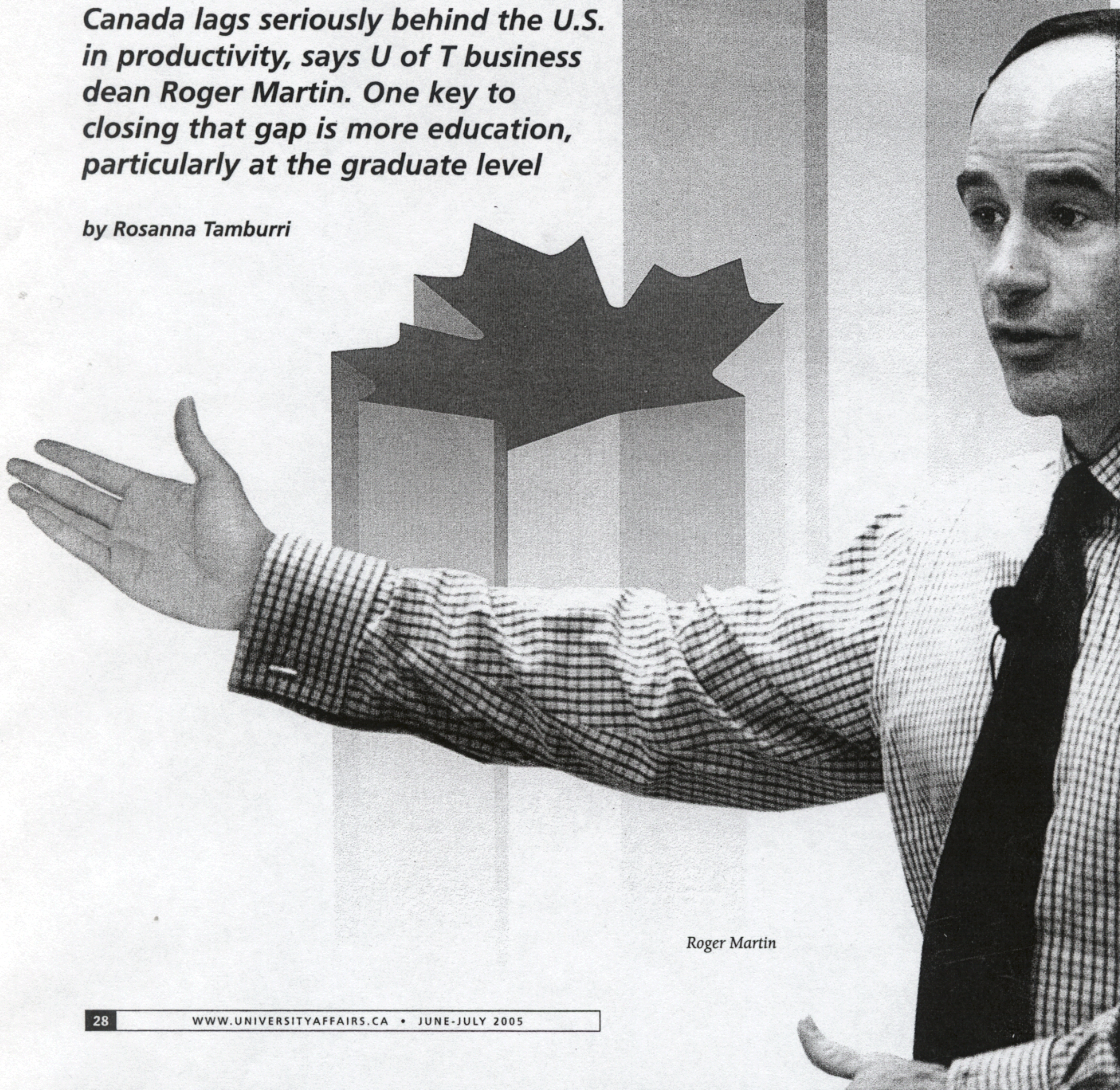


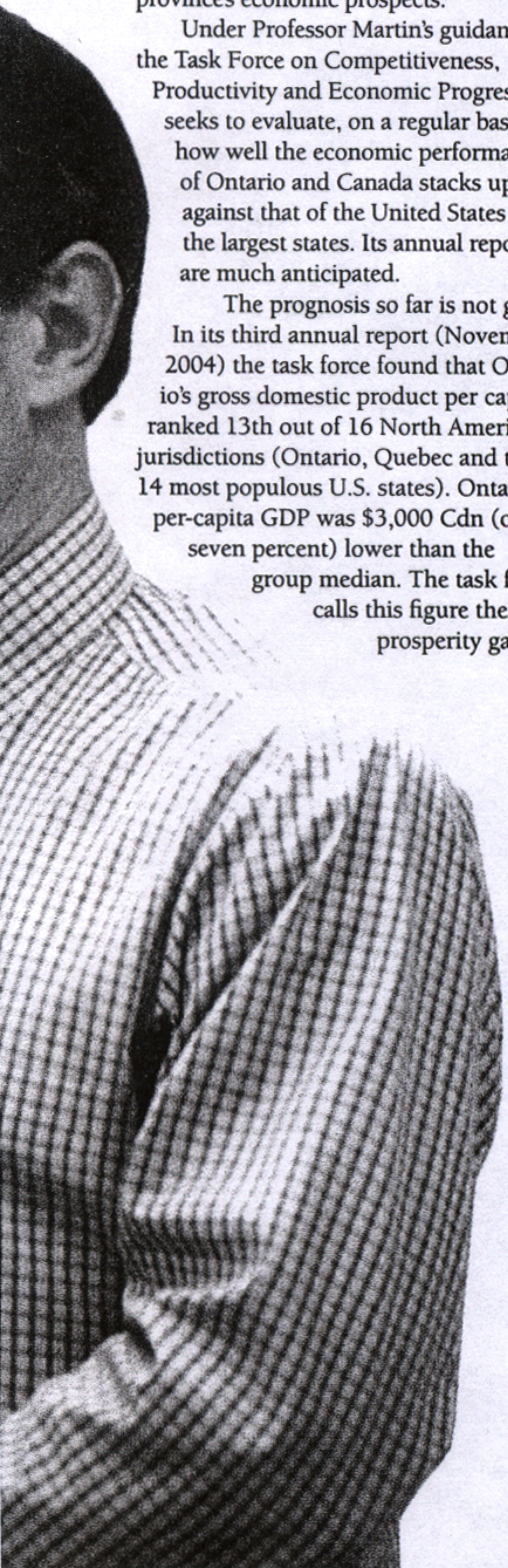
Mind the gap

Canada lags seriously behind the U.S. in productivity, says U of T business dean Roger Martin. One key to closing that gap is more education, particularly at the graduate level

by Rosanna Tamburri



Roger Martin



Once he was appointed dean of the University of Toronto's Rotman School of Management in 1998, Roger Martin lost little time making a name for himself as a respected management theorist and expert on competitiveness. So it was no surprise when, four years ago, the Ontario government tapped the Harvard-educated dean to head up a new task force on the province's economic prospects.

Under Professor Martin's guidance, the Task Force on Competitiveness, Productivity and Economic Progress seeks to evaluate, on a regular basis, how well the economic performance of Ontario and Canada stacks up against that of the United States and the largest states. Its annual reports are much anticipated.

The prognosis so far is not good. In its third annual report (November 2004) the task force found that Ontario's gross domestic product per capita ranked 13th out of 16 North American jurisdictions (Ontario, Quebec and the 14 most populous U.S. states). Ontario's per-capita GDP was \$3,000 Cdn (or seven percent) lower than the group median. The task force calls this figure the prosperity gap.

Surveying the national scene, the task force found that Canada's per-capita GDP trails that of the U.S. by \$7,200, a 16-percent prosperity gap. This translates into \$15,000 in after-tax, disposable income lost to the average Canadian family. But most importantly, says Professor Martin, it translates into billions of tax dollars lost to health care, social services and education.

Professor Martin, reappointed to a second five-year term as dean of the Rotman School beginning in July, spoke to *University Affairs* about the prosperity gap, the role higher education plays in Canada's flagging productivity performance, and what can be done to reverse the trend.

The task force reports that Ontario's prosperity continues to trail that of a peer group of American states, and Canada's prosperity trails that of the U.S. Why is the prosperity gap significant and why should we, as citizens, care about it?

Professor Martin: The main reason is that it impinges on our ability to invest in things like health care and social programs. We have hospitals saying, "We don't have enough money." A lot of that has to do with us having less in the way of tax revenues than we would otherwise have. It also prevents investment in all the things that would make us prosperous in the future, something that worries me more than the former. We are under-investing in generating the kind of prosperity we need for the future and I think that's selling short future generations.

Several factors contribute to this prosperity gap, according to the task force: under-investment by firms in machinery and equipment, a lower level of urbanization, and under-investment in higher education are among the main ones. How important is higher education in this mix?

Professor Martin: Education is the most significant investment that a country makes now in generating future prosperity. When we under-invest in education

that's the biggest signal of not paying attention to the future prosperity of the country and, instead, thinking about how we can consume our current prosperity. We've done way too much of that.

The task force found that business leaders in Ontario are more likely to recommend a college diploma to young people as their highest level of educational attainment, whereas in the U.S. they're more likely to recommend a university degree. Why do you think that's the case?

Professor Martin: There's a bit of a vicious cycle we're in, which is that our managers are dramatically less educated than U.S. managers. And so those Ontario managers say, "It's really not that important to have an education, so if I'm going to recommend a level of educational attainment to somebody, it will be like mine." Similarly, the more highly educated U.S. [corporate] managers, where 50 percent of them have university or graduate degrees, will say "What did it take for me to get into this position? I'm going to recommend the same to anybody who asks me what level of education they should aspire to."

And, returns to education are quite distinctly higher in the U.S. than they are in Canada. So the premium you get for a university education over a high-school education is higher in the U.S. than in Canada and still higher for professional or graduate degrees.

Do you mean wages?

Professor Martin: Yes. Higher education gives a higher payoff to the person being educated in the U.S. than in Canada. And for that reason, it's more evident and obvious that you should seek as high an education as you can get and that companies are willing to reward that with higher wages. They will encourage people to get a higher education.

What can we do about that?

Professor Martin: It's a challenge. And what I think we've got to do [on this front] is have more government and senior business leaders say, "It's getting

more obvious it's a knowledge economy and we're not educating our citizenry far enough down the line and we simply have to do more of it." I think it's really got to be at the level of a major national priority or we will simply fall behind.

Do you mean more investment by governments in higher education?

Professor Martin: Certainly more investment by governments, but also by individuals. . . . I've just crunched the numbers on this. It turns out that the return on investment for the average student coming to the Rotman School

educational attainment, and salaries are a reflection of productivity. So if they have twice as many people coming out of their education system with graduate education, and we know graduate-educated people make more money and hence are more productive, it's worrisome that we won't have people like that to compete head-to-head with U.S. companies. In a globalizing world it's absolutely critical to have globally competitive companies that are able to gain market share over time over their global competitors rather than cede market share over time. . .

The challenge for Canada is that our graduate education system is just a tiny

of a consequential size. We've got rich foundations. We have rich individuals. We have lots of big corporations.

The task force found that our firms don't benefit to the same degree as U.S. companies from industry-university research collaboration. Why is this important and what should governments, universities and businesses do to spur this?

Professor Martin: It's important because lots of great innovations and ideas flow out of universities. Universities can invest in things that individual companies can't. To me it all gets back to the under-education of our managerial classes. If you went to university and maybe even to graduate school and then go into business and have a problem – a new thing that you didn't know anything about in your business – you'd be more inclined to phone up a university and say, "Do you guys do any research on this?" . . .

Now I think on that front there is some pump-priming that the government can do and these Ontario Centres of Excellence are a good thing. However, by way of criticism, when governments think of university-industry collaboration, they think exclusively about collaboration between people in businesses with technical and scientific people in universities. Business schools are not involved in any of these collaborations. I think it's a lacuna because business schools can provide a bridge between these business people and these scientific and technical people.

Another factor in determining prosperity is the degree of urbanization. The U.S. and the peer states are far more urbanized than Canada and Ontario. What can governments do to build and foster strong and vital cities that will attract skilled workers?

Professor Martin: They can [recognize] that with urbanization comes prosperity, and they should be biased towards cities growing, not making it hard for cities to grow. . . . I think on balance Ontario and Canada have spent more time worrying about keeping people where they are than worrying how we can have agglomeration continue and strengthen the size of our cities. **AU • UA**

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and taking an MBA – if you include both what they paid the University of Toronto and the opportunity costs of not working for the two years – is a 30-percent compound annual return for over 30 years, which is a gigantic return. It's like nothing else they can get on any investment that they are going to make in the rest of their life. . . . So individuals have to recognize that the returns on education are just huge [even in Canada, and] have to be more willing to invest.

But governments also. The governments have got to say: "We need to have more spaces, more graduate students." We graduate half as many graduate students per year, per capita, as the U.S. and that just doesn't work.

The report calls this difference "worrisome." Why?

Professor Martin: Because I think the U.S. economy, in higher and more sophisticated industries, can populate those industries with more highly educated managers and workers and scientists, etc., than we can. There is such a clear relationship between salaries and

size. There are roughly speaking about 4,000 MBAs given out in this country every year and 100,000 in the U.S. That's way out of proportion.

Large private gifts and donations to U.S. universities are also significant. We don't have as many foundations or wealthy donors, so what can universities or governments do to improve the situation?

Professor Martin: We shouldn't assume that we can't match the U.S. giving to public universities. I think that's something we have got to work on.

There are a dozen or so hugely endowed American institutions of higher learning. I wish we had those. We don't. . . . That said, I don't think there's any excuse whatsoever that says we should accept in Canada that the University of Toronto is not able to fundraise like [University of] Michigan or Berkeley. I think the University of Toronto has shown leadership on that and needs to continue to push the frontiers. We are the second-richest country in the world

L'écart de prospérité

par Rosanna Tamburri

Une fois nommé doyen de la Rotman School of Management de la University of Toronto en 1998, Roger Martin, diplômé de Harvard, n'a pas tardé à se faire connaître et respecter comme théoricien de la gestion et expert en compétitivité. Nul n'a donc été étonné lorsque le gouvernement de l'Ontario l'a invité à présider un nouveau groupe de travail sur les perspectives économiques de la province.

Le Groupe d'étude sur la compétitivité, la productivité et les progrès économiques évalue de façon régulière la performance économique de l'Ontario et du Canada par rapport à celle des États-Unis et de leurs États les plus importants.

Jusqu'à présent, le pronostic n'est guère réjouissant. Dans son troisième rapport annuel (novembre 2004), le groupe d'étude signalait qu'en Ontario le produit intérieur brut (PIB) par habitant se classait au 13^e rang parmi 16 territoires évalués (l'Ontario, le Québec et les 14 États américains les plus peuplés, le Québec venant au dernier rang). Le PIB par habitant était inférieur de 3 000 \$CAN (7 pour cent) à la médiane, différence que le groupe d'étude appelle « écart de prospérité ».

Sur la scène nationale, le groupe d'étude estime que le PIB du Canada par habitant est de 7 200 \$ inférieur à celui des États-Unis, ce qui représente un écart de prospérité de 16 pour cent et un revenu net de 15 000 \$ en moins pour la famille canadienne moyenne. Fait encore plus important d'après M. Martin, sur le plan des recettes fiscales, cet écart se traduit par une perte de milliards de dollars qui auraient pu être investis dans les soins de santé, les services sociaux et l'éducation.

Lors d'une entrevue accordée à *Affaires universitaires*, M. Martin, dont le deuxième mandat de cinq ans comme doyen de la Rotman School commence en juillet, a déclaré que l'éducation est l'investissement le plus important qu'un pays puisse faire pour assurer sa prospérité. Le rendement d'un tel investissement pour les particuliers est

considérable. D'après M. Martin, un étudiant moyen inscrit au programme de MBA de l'école Rotman verra cet investissement lui rapporter chaque année pendant 30 ans un rendement composé de 30 pour cent. « Aucun autre investissement effectué au cours de sa vie ne pourra lui rapporter autant », dit-il.

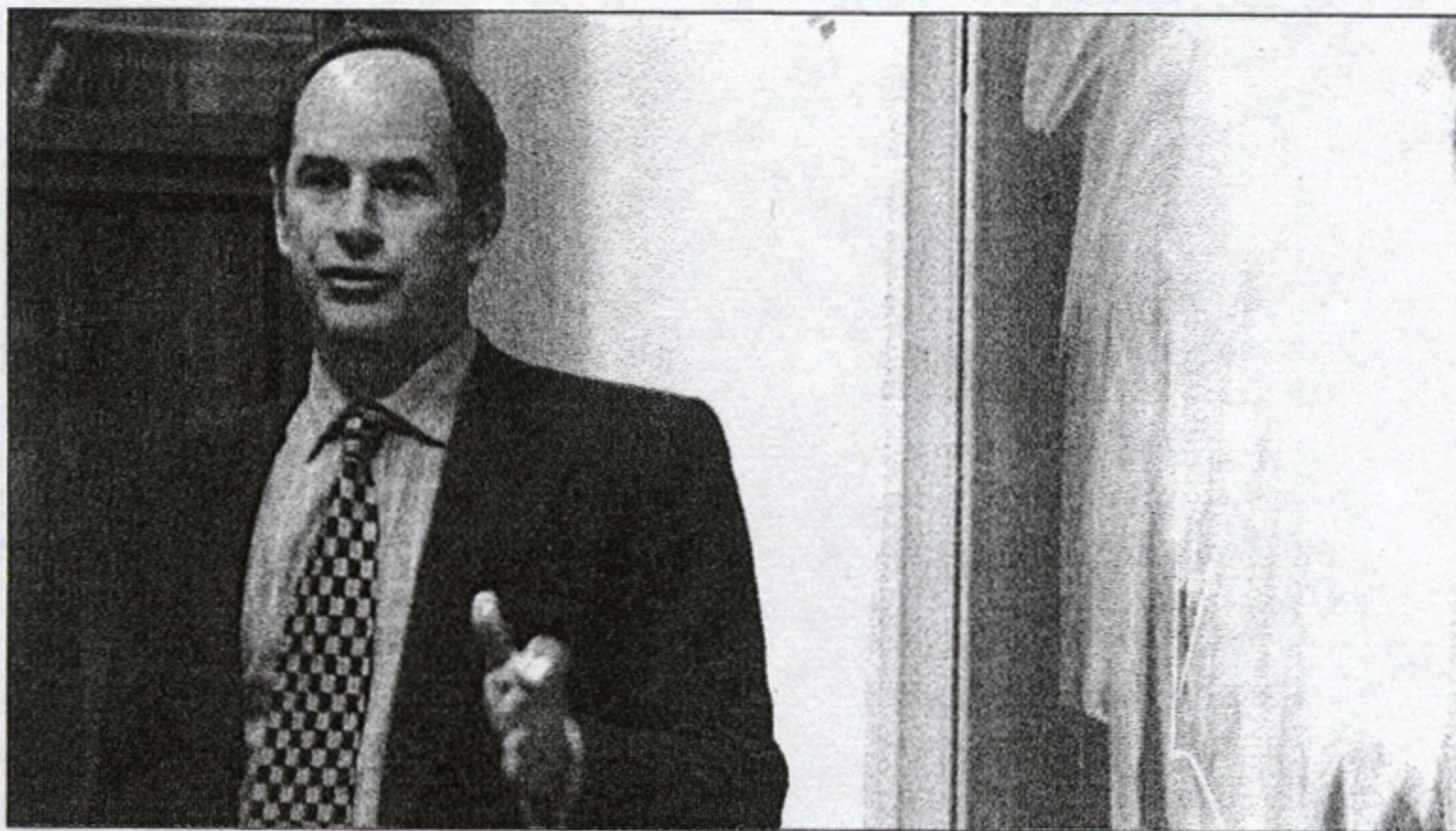
Quoi qu'il en soit, gouvernements et chefs d'entreprises au Canada doivent encourager davantage les Canadiens à poursuivre des études avancées, particulièrement aux deuxième et troisième cycles. « Le nombre de nos diplômés par rapport à l'ensemble de la population est deux fois moins élevé qu'aux États-Unis », signale-t-il. Pour ce qui est des diplômes d'études supérieures en affaires, l'écart est encore plus grand : pour 4 000 MBA décernés chaque année au Canada, environ 100 000 sont conférés aux États-Unis.

M. Martin trouve la situation inquiétante parce qu'il existe un lien manifeste entre le salaire et le niveau d'études atteint, et parce que les salaires sont le reflet de la productivité et de la compétitivité d'un pays. « Dans le contexte de la mondialisation, il est absolument essentiel que nos entreprises puissent

s'accaparer de parts du marché mondial plutôt que se voir obligées de céder leur place à la concurrence. »

Le groupe d'étude a également conclu que les entreprises canadiennes ne profitent pas autant que les entreprises américaines de la collaboration entre l'industrie et la recherche universitaire. M. Martin explique que ce problème résulte du retard « effarant » que les gestionnaires canadiens accusent par rapport à leurs homologues américains en matière d'éducation. Si un gestionnaire n'a pas fait d'études universitaires, il ne sera probablement pas enclin à consulter un collègue diplômé pour résoudre un problème d'affaires.

Le degré d'urbanisation d'une région influe également sur la prospérité, et dans ce cas, l'Ontario et le Québec sont moins avancés que certains États américains de taille comparable. Au Canada, les divers gouvernements doivent reconnaître que « l'urbanisation est synonyme de prospérité et devraient favoriser la croissance des villes plutôt que l'entraver ». Selon M. Martin, l'Ontario et le Québec se sont davantage préoccupés d'empêcher le déplacement de la population que de renforcer leurs villes. **AU • UA**



Pour Roger Martin de la U of T, l'éducation est l'investissement le plus important qu'un pays puisse faire pour assurer sa prospérité.