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## What happened to Canada's education advantage?

**We steered away just as the world was entering the knowledge economy**

**by Roger Martin**

In 1992, education wasn't on many Canadians' radar screens. Our national attention was focused on debt and deficits. Things were getting desperate. The federal deficit had ballooned from \$1 billion in 1971 to more than \$40 billion in 1992-93. The federal and provincial governments owed \$665 billion between them, about \$300 billion of which was foreign debt. The total debt amounted to more than 95 per cent of the country's gross domestic product.

It was a bad time to be in poor fiscal shape. The world economy had fallen into a sharp recession and it was particularly difficult for Canada. GDP fell by 3.2 per cent in a single year. Unemployment spiked from 7.5 per cent in 1989 to 11.2 per cent in 1992. Recovery was proving to be slow and painful.

Enter Paul Martin, Canada's newly minted finance minister, who took full advantage of the opportunity to make his name as the man who slew the deficit. Over the two fiscal years between 1994—95 and 1997—98, Martin achieved an impressive \$33 billion turnaround in Ottawa's fiscal position, moving from a \$30 billion deficit to a \$3 billion surplus. The economy had helped him by providing \$21 billion in increased revenues, but he also cut \$12 billion worth of federal spending.

But where did that \$12 billion in cuts come from? The biggest rollback was in transfers to the provinces, money used to fund education and health care, the biggest provincial expenditures. Martin chopped \$8 billion, or 24 per cent, from this budget line between 1995-96 and 1997-98, a time the provinces were all dealing with their own fiscal challenges, including legacies of debt and deficit spending. By 1999-2000, provincial transfers were nearly back to pre-1995 levels. But by then, the provinces had radically transformed their spending approaches.

Consider Ontario. By 1994, Mike Harris was newly installed as premier on the strength of his Common Sense Revolution. He had promised to deliver a fully balanced budget within four years "without touching a penny of health-care spending." Law enforcement and classroom funding for education would also be safe from cuts, Harris promised. But, he continued, "that does not mean that savings cannot be found elsewhere in the education system." He cut, and he cut deep. In his first two years, education expenditures dipped \$1 billion, or 5 per cent. The centrepiece of this program was a 25 per cent cut in funding for Ontario universities.

Harris's cuts were grounded in a belief that the education system was profligate. So, even when the economy finally recovered and he could dramatically ramp up spending (as he proceeded to do with health care), he kept education spending flat, and left it that way for his final five years as premier. Consequently, Ontario post-secondary education funding fell by 21 per cent during the '90s, while enrolment increased by 8 per cent. By the end of the century, Ontario's per capita university funding rank had fallen to tenth out of 10 provinces.

In response to dire economic times, our politicians responded by cutting education. This is in keeping with our governments' deep bias toward consumption. Broadly speaking, public expenditures can be broken into two fundamental buckets: investment in building future prosperity and consumption of current prosperity.

Education falls into the future prosperity category. Putting a child into a classroom has zero current economic benefit. In fact, for late secondary and post-secondary institution students, education is a big current negative. It takes able-bodied workers out of the potential workforce and sticks them in an expensive classroom. But education is simply the best possible

investment in future prosperity. In Canada, the average salary for someone with a university degree is \$58,767 per year – 50 per cent greater than that of the average high school graduate and 69 per cent greater than that of a high-school dropout. Education pays tremendous future dividends to the individual and to the economy by making its workers much, much more productive.

The consumption of current prosperity, by contrast, consists of expenditures that we are able to make as a society because we are already prosperous. These expenses provide a large benefit today, but do little to enhance our fortunes in the future. Helping the disadvantaged among us afford shelter and sustenance is a good example. We are able to provide welfare for poor families because we are sufficiently prosperous today. Expenditures of this sort provide a large benefit – they are the mark of a good and caring society. But they don't increase future prosperity; they consume our current prosperity.

The largest consumption of current prosperity by governments around the world is health care. In Canada, because we are wealthy, we can provide this service at a high level, which improves our quality of life. Not all health care is consumption – there is obvious future benefit in getting an injured worker back on the job or fixing a baby's heart so that she can become a productive member of society. However, the bulk of health-care costs represent pure consumption.

Politicians of all stripes favour current consumption; it's the kind of spending that helps get votes. And so our governments chose health care over education. As a consequence, Canada – and Ontario, in particular – has moved from a position of strength to one of weakness. We once led the world in our commitment to education investment. No longer. Our health-care system briefly lost its lead in public health-care spending in 1995, but regained approximate parity with the U.S. in 2000 and has maintained it ever since. In contrast, by 2002 education spending in Canada had fallen a full 17 per cent behind the U.S. In Ontario, Harris turned the 4 per cent advantage in per capita spending that he inherited into a 25 per cent disadvantage by the end of his term in 2002.

We've been off the path for 15 years. It would now take an additional spending of \$21 billion across all levels of government in Canada to return to the per-capita spending position we enjoyed relative to the United States in 1995. Ontario would require \$10 billion a year, consuming nearly half of the \$21 billion even though only 39 per cent of the population lives here.

The great tragedy is that Canada and its provinces, especially Ontario, shifted dramatically away from a historical competitive advantage in education just as the world was finally entering the long-promised knowledge economy. There had been talk about such a shift for years, if not decades, but by 1995, it was utterly clear that the 21st century was going to be driven by knowledge and the education systems that fuel it. Right at that pivotal moment, Canada bailed. It's not too late to repair the damage, but it soon will be.

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