

## Quebec Government Consultations on the Future of Higher Education

Recommendations from the Board of Trade of Metropolitan Montreal as  
part of consultations on the university funding policy



July 2013

**Preamble**

The Board of Trade of Metropolitan Montreal has approximately 7,000 members. Its mission is to represent the interests of the business community of the Montréal metropolitan region and offer an integrated range of specialized services to individuals, merchants and businesses of all sizes, so as to support them in the achievement of their full potential in innovation, production and competitiveness. The Board of Trade is the leading private organization in Quebec dedicated to economic development.

**Context**

Following the Higher Education Summit, in April 2013 the Government of Quebec initiated consultations on the following five projects: developing framework legislation for universities, putting in place the CNU (a council of universities), CEGEP education, the university funding policy and improving financial aid for higher education. On June 10, the President and CEO of the Board of Trade of Metropolitan Montreal, Michel Leblanc, met with the chairs of the university funding policy project, Hélène P. Tremblay and Pierre Roy, to share the Board of Trade's recommendations with them.

This brief by the Board of Trade specifically addresses the university funding policy.

## **I. The essential role of our universities in the economic growth of metropolitan Montréal and our prosperity**

### **A. Montréal: a university metropolis**

Montréal is undeniably a university metropolis. The metropolitan area includes 9 renowned universities, which employ over 36,000 people and have over 184,000 students, 65% of all Quebec university students. It thus ranks second in North America for the number of university students per capita. In addition, metropolitan Montréal has the largest pool of graduates in Canada.

These universities contribute significantly to the economic vitality and the social and cultural influence of metropolitan Montréal, which is considered to be the number one city in Canada for the funding allocated to university research and the 10<sup>th</sup> leading university city in the world<sup>1</sup>.

Our universities must be able to accomplish their mission educating the Quebec population and developing and disseminating knowledge, so that they continue to represent a strong sector of our economy and extend their influence in the world. They must focus on accessibility, efficiency and excellence, while ensuring they are attractive and competitive in the global environment.

### **B. Universities: an important source of added value and job creation**

Our universities play a leading role in disseminating knowledge, increasing productivity and creating wealth. This is a key factor, which has allowed the successful transition from a manufacturing economy to a knowledge economy. According to a study published by the Mouvement des caisses Desjardins<sup>2</sup>, the economic spinoffs generated by universities are estimated at about \$12 billion in Quebec (for 2006) and their impact on productivity at about \$7 billion. The universities contribute not only to wealth creation but to the improvement of our standard of living. In this sense, they favour the emergence of high value-added industries and quality job creation, and improve workers' employability. Metropolitan Montréal ranks 7<sup>th</sup> in North America for concentration of high value-added jobs.

Education is an investment both for society and for students themselves. Thus, according to a CIRANO study, the private rate of return of a Bachelor's degree is 15.7% for men and 20.1% for women, while the social return is 11.8% for men and 12.9% for women<sup>3</sup>. The questions regarding the performance of our university network thus concern all economic players, whether the government, students or businesses.

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<sup>1</sup> 2012. *QS BEST STUDENT CITY RANKINGS*.

<sup>2</sup> ÉTUDES ÉCONOMIQUES DESJARDINS. November 2008. *La prospérité future passe inévitablement par les universités*.

<sup>3</sup> CIRANO (Pouya Ebrahimi, François Vaillancourt). November 2010. *Le rendement privé et social de l'éducation universitaire au Québec*.

### **C. Universities: a key factor in metropolitan Montréal's attractiveness and competitiveness**

We should remember that in an increasingly integrated world, featuring mobility of people and goods, economic growth increasingly depends on innovation and creativity. In other words, human capital and the development of knowledge are at the core of economic development strategies.

Montréal is in competition with other metropolises to attract and retain talent and renowned professors and researchers. According to a study by the Board of Trade<sup>4</sup>, the quality and availability of human capital are key factors for the attraction and retention of foreign investments and head offices. The presence of nine quality university institutions serves as a convincing argument when metropolitan Montréal companies try to attract foreign talent and their families. In this regard, it is important to mention the special impact of McGill University, particularly due to its very favourable position in international rankings.

Likewise, the presence of a quality university network favours the creation of industrial clusters and facilitates knowledge transfer. Our universities thus create conditions favourable to innovation and attract both creative industries and talent. For the economic future of metropolitan Montréal, a world-class university network is therefore indispensable.

## **II. The economic challenges facing Quebec and its metropolis**

### **A. The relative decline in the number of potential workers**

Population aging in Quebec and its metropolis is more rapid and acute than in the rest of Canada. Metropolitan Montréal's companies therefore will have greater and greater difficulty meeting their labour needs and ensuring their development. According to Emploi-Québec's estimates, nearly 316,400 jobs will have to be filled in the Montréal CMA from 2012 to 2016, 68% of which will result from departures for retirement. The Board of Trade insists that it is necessary for the Government to increase the availability of skilled labour, particularly by increasing the number of university and technical graduates.

### **B. Our companies' historical low productivity**

The challenge of productivity is added to the challenge of the aging population. Since 1981, Quebec has seen one of the lowest average annual growth rates in labour productivity. In 2011, Quebec fluctuated between 16<sup>th</sup> and 17<sup>th</sup> place in the ranking of OECD countries<sup>5</sup>.

This low labour productivity has resulted in a reduction of our collective wealth, and thus our standard of living. In addition, the Montréal CMA is near the bottom of the list among North American metropolises in terms of per capital GDP in 2010 (32<sup>nd</sup> out of 33 metropolises). The Board of Trade is calling on the Government to pay special attention to our lagging productivity, an economic lever for which training and education are key determinants.

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<sup>4</sup> BTMM. June 2012. *Competitiveness of the Greater Montréal Business Environment*.

<sup>5</sup> CENTRE SUR LA PRODUCTIVITÉ ET LA PROSPÉRITÉ. 2012. *Productivité et prospérité au Québec – Bilan 2012*.

### **C. A mismatch between university and college education and our companies' needs**

In the context of globalization, constant technological changes and knowledge-based economies, the job profile has changed. Our companies increasingly need a skilled and educated workforce. Yet several indicators reveal a mismatch between training and companies' needs:

- A high overqualification rate, attesting to suboptimal utilization of human capital. In the Montréal CMA, 32% of workers were overqualified in 2011<sup>6</sup>;
- A lag in technical and vocational training. Enrollments are well below their 2000-2001 level;
- Low adult participation in job-related training, which positions Quebec far behind the other Canadian provinces.

Moreover, during the Board of Trade's Strategic Forum on industrial clusters, held on May 6, 2013, the metropolitan clusters testified to their growing concerns regarding the alignment between university and technical training and their sectoral needs.

Increasing the number of graduates, particularly in the sectors with a strong demand for jobs, and improving the interactions of colleges and universities with companies, will help improve the training-employment match within the metropolis and the employability of graduates. In addition, the Government must ensure that information on the market is disseminated well, so that students are more familiar with the job possibilities in each training field and thus are led to make informed choices. This does not mean establishing rigid planning of training, but encouraging universities and colleges to remain agile and proactive in aligning with the needs of the market and society.

### **D. University education losing steam**

If we analyze more closely, we must recognize that Montréal's status as a university metropolis is weakening. This situation is extremely worrying.

First of all, Quebec's graduation rate is lagging. The most recent data<sup>7</sup> indicates that only 16.5% of Quebecers age 15 and over have a university degree, compared to 20.5% in Ontario and 19.3% in British Columbia.

Secondly, metropolitan Montréal seems to be attracting relatively fewer students. From 1999 to 2009, the average annual growth rate of total university students within the Montréal CMA grew by only 2.1%, compared to 5%<sup>8</sup> in the Toronto CMA and 5.8% in the Vancouver CMA. Montréal's ability to attract foreign university students is cause for even greater concern; during the same period, their number grew by 6.7% in the Montréal CMA, compared to 11% and 15.3% in the Toronto and Vancouver CMAs respectively.

Concerning subsidized research, we also note lower growth compared to the other metropolitan areas (3.5% growth for the Montréal CMA compared to 4.8% in Toronto and 8.5% in Vancouver).

Finally, the high overqualification and low vocational training rates in metropolitan Montréal reveal the need to strengthen collaboration and concerted action among university institutions, civil society and businesses, and improve the dissemination of information on employability in different training fields to respond better to the market's needs.

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<sup>6</sup> CIRANO. 2013. *Origines et sources de la surqualification dans la région métropolitaine de Montréal.*

<sup>7</sup> CENTRE SUR LA PRODUCTIVITÉ ET LA PROSPÉRITÉ. 2012. *Prospérité et productivité au Québec – Bilan 2012.*

<sup>8</sup> STATISTICS CANADA, POSTSECONDARY STUDENT INFORMATION SYSTEM (PSIS). 2012. Compilation by Montréal International.

### **III. The university funding policy: solving the problem of underfunding and improving university performance**

To tackle the above challenges, the city's universities need to attract and educate more students, better respond to the needs of business, conduct leading-edge research and have appropriate funding for their development. The business community therefore expects a firm, clear commitment to correcting chronic university underfunding.

#### **A. Chronic underfunding threatens our prosperity as a society**

It goes without saying that high-performance and international-calibre universities require appropriate funding, both to ensure their excellence and effectiveness and to provide access and equity when it comes to education. And yet, Quebec universities suffer from chronic underfunding. Estimates of this underfunding vary, but we have settled on the figure of \$850 million in 2009-2010<sup>9</sup>. No matter the exact number, we believe that there is a lack of investment in leading-edge infrastructures for our universities, mirroring the investment deficits seen in other areas of infrastructure in the province.

It is hard for the universities themselves to admit it publicly, but this underfunding is also creating a relative deterioration in the quality of teaching, resulting from a more limited capacity to attract and retain renowned professors and researchers and a more widespread use of lecturers instead of regular professors. If this underfunding should continue, the result will inevitably be an erosion in our economy's potential for innovation and a decline in the reputation of our universities within Canada and internationally.

The spectre of this undermining of our universities and its dire consequences for the future of Quebec and its largest city explains the Board of Trade's continued involvement in the debate on university funding. Given that the government had already increased its contribution and taking into account the size of the public debt, the Board of Trade has advocated<sup>10</sup> lifting the cap on tuition fees, which would be adjusted by field of study and accompanied by an increase in loans and bursaries.

Of course, the Board of Trade took note of the government's decision not to significantly increase tuition fees in the short term. The government's choice to increase ongoing annual funding to universities through public funds and to limit tuition fee increases to the rate of growth in the disposable income of families is a lesser evil in the sense that it provides universities the means to stem their decline. However, this decision places yet another burden on our public finances and does not send the right price signal so that students can make informed choices.

In this vein, again, we feel it would be more equitable to adjust tuition fees by field of study, which we believe is compatible with the government's proposal. Such an approach would ensure that the primary beneficiaries of the return on investment in education, i.e. the students, would see their contribution increase, while preserving the values of our university system, namely, accessibility, equity, efficiency and excellence.

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<sup>9</sup> CREPUQ. January 2013. *Le niveau des ressources de fonctionnement des universités québécoises : comparaison aux autres universités canadiennes 2003-2004 à 2009-2010*.

<sup>10</sup> See *A Pact for the Competitive Funding of Our Universities* (February 2010), pre-budget recommendations to the Government of Quebec (2010-2011), etc.

Finally, while these measures must ultimately make up for the recent years of university underfunding, we should reiterate the importance of periodically conducting a study of the state of funding of Quebec universities compared with those in other Canadian provinces. This would allow us to better evaluate our competitive position and take the appropriate action to adjust our course as needed.

**B. The business community expects a firm, clear commitment to improving university funding**

Adequate funding for our universities is a necessary condition, but not a sufficient one. It is also important that funding for Quebec universities be stable and predictable in the long term, as well as offering them the flexibility to adjust to their market conditions. Furthermore, for the Board of Trade, improving funding means increasing participation in funding by students and through philanthropy.

The government needs to put an end to the uncertainty surrounding university funding. Predictable, stable funding is essential for rigorous, prudent management of universities, based on long-term commitments. The uncertainty of recent years, fueled by the state of public finances, must be replaced by a firm commitment by the government to establish structural funding measures that will help increase the competitiveness of universities, well beyond 2018-2019 with respect to compensation for the increase in tuition fees.

In such a climate, the Board of Trade holds that all parties need to contribute more, sooner or later, to the funding effort, particularly given the tight budgetary context. As noted above, students, the primary beneficiaries of a university education, must contribute a higher proportion of overall funding of universities through tuition fees, more in line with the benefits they receive from a successful university education. We also believe it is important to encourage the development of a culture of philanthropy among alumni and businesses, particularly in the francophone community, where the tradition is still a young one.

Furthermore, for reasons of funding and equity, the government needs to consider removing the cap on tuition fees for foreign students. At the same time, it should review its preferential treatment of certain francophone students, even if it means introducing exemptions conditional on students spending a few years living and working in Quebec. The government needs to allow universities to choose their strategy for attracting students and ensure that they are encouraged in their recruitment efforts through an optimal sharing of the lump-sum amount required from foreign students in addition to tuition fees.

This flexibility should also apply for mandatory institutional fees, which should reflect the costs and particular reality of each institution and each field. We believe that, over the years, lifting the freeze on tuition fees should relieve some of the pressure on universities, as they will be able to draw a larger proportion of their revenue from this source.

### **C. The method of university funding must be reviewed**

University funding must encourage a healthy emulation between universities and further develop their performance, a condition essential to the success of our world-class universities. But the current system of funding, based on the number of students registered, does not encourage performance or excellence. On the contrary, it creates unnecessary competition to attract as many students as possible and continue to increase the number of platforms, instead of having a concentration of students in a more limited number of programs to optimize spending. We believe that the proposed *Conseil national des universités* should play an important role by suggesting and compiling performance indicators that will allow the government to determine funding for each institution.

University funding must reflect the diversity of our universities and grant them the flexibility they need to accomplish their mission. The current approach does not take into account the particular features of each institution: some focus more on world-class research, others on accessibility; some are rooted in the metropolitan reality, others in that of the regions. Any initiative that targets inter-university egalitarianism would be detrimental to Montréal. Montréal competes with other major cities around the world. This is also true of its universities.

With respect to first-generation students, the Board of Trade believes that the issue lies upstream from the decision to undertake university studies. It is not the right time to make attracting first-generation students a specific target, for example, for technical training. Efforts to get value out of the degree obtained and matching education with the needs of the job market are more important and should be the priority, without neglecting awareness-raising efforts that should begin in childhood.

So while seeking to create as simple a method of funding as possible, the government must:

- Take into account the competitive environment and mission of each institution: funding must vary according to the university and its strategic objectives;
- Grant universities the flexibility to adjust tuition fees according to field of study and discipline to reflect the cost of training and the variable return on investment of a university education;
- Recognize the maintenance deficits of each university and compensate them adequately so that they can rectify the situation;
- Let universities establish compensation policies based on their own business strategy and reality;
- Institute fair, rigorous reporting.

If these conditions are met, the Board of Trade believes that Quebec universities will be more competitive, focused on performance and better able to make ongoing adjustments to their environment.

## **Conclusion**

The performance of our universities is essential to the city's economic and social success. For universities to continue to play a key role in the city's economic development, the government must give them the funding they need to be competitive, recognize the diversity of the university network and reinforce its autonomy and the reporting system. Without these conditions, the future of our knowledge society is compromised.

In light of these considerations, the Board of Trade stresses the importance of recognizing the unique personality of Quebec universities and giving them more flexibility to respond swiftly to distinguish themselves in their competitive environment. The approach to funding the government chooses must offer a long-term structural correction to the underfunding our universities have suffered from for too long already. This means that the method of funding must be reviewed to make it more stable and predictable, while generating greater contributions from students.