



**Chambre de commerce
du Montréal métropolitain**

Board of Trade of Metropolitan Montreal

Institutions of higher education: A critical issue for the economic engine of Quebec

Brief of the Board of Trade of Metropolitan Montreal
presented to the Parliamentary Committee on education for the
quality, accessibility and funding of universities

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Introduction

The Board of Trade of Metropolitan Montreal has some 7,000 members. Its mission is to represent the interests of the business community of the Greater Montreal region and to promote the economic development of the urban area. Encompassing three specialized service branches (Info entreprises, the Electronic Commerce Institute and World Trade Centre Montréal) that serve individuals, merchants and businesses of all sizes throughout Quebec and Canada, the Board of Trade is Quebec's leading private economic development organization.

The Board of Trade has long been interested in the issues surrounding education, workforce training, and research and development activities conducted in the metropolitan region of Montreal. Indeed, over the past few years, the Board of Trade has diligently participated in the government consultations on the education system and especially those pertaining to universities. It has also submitted briefs on the topic of education in 1992, 1996, 1999 and 2001.

The knowledge economy and the direct international competition that exists between metropolitan regions is requiring them to have superior education systems capable of offering quality training and leading-edge research and development activities. Given that in relation to the manufacturing sector, innovative and high-knowledge sectors assumed an increasingly important role in the 20th century, it is clear that today nations and cities alike cannot develop and prosper without excelling in knowledge areas. In Quebec, the hotbed of high-knowledge economic activity is without a doubt Metropolitan Montreal. The presence of a critical mass in education and university research attests to this fact: four universities on the Island of Montreal, teaching activities throughout the metropolitan region, some 120,000 students, and the site of 75% of Quebec's university research.

It is in this context that the Board of Trade wishes to take part in the Parliamentary Committee on Education for the Quality, Accessibility and Funding of Universities to underscore just how critically important it is to have universities with the adequate financial means to accomplish their mission to ensure that Greater Montreal and Quebec develop and thrive both economically and socially. As such, the Board of Trade will discuss the following three elements in this brief: the critical importance of the university system for Greater Montreal's economic competitiveness; the underfunding of Quebec universities; and lastly, the importance of making a major shift in terms of how higher education is financed.

1. The university system: the driving force of Greater Montreal's innovation, productivity and economic competitiveness

A. The 21st century economy: the importance of high knowledge and innovation

In the current global context, the high-knowledge economy has assumed an undeniable importance. Insofar as one of the key components of this new economy is human capital, the quality of education takes on a whole new meaning. Not surprisingly, major urban centres are increasingly and fiercely competing head on to attract and keep qualified labour.

Metropolitan Montreal is no different. Its economy, and by extension, that of Quebec and Canada, also needs a strong concentration of qualified workers. And in this respect, there is no question that universities help develop this qualified labour and help create and attract high-knowledge businesses to Montreal. This contribution is essential if Greater Montreal is to take its rightful place in the knowledge economy, a place befitting its many assets and possibilities.

B. Knowledge: one of Montreal's assets

The economy of the Montreal region, one of the most diversified in Canada,¹ can rely on three particularly well-developed sectors of the knowledge economy: information technology (97,500 jobs), aerospace (37,800 jobs), and biotechnology (21,300 jobs).² These pillars of Montreal economic development employ over 150,000 people out of a total of 1.7 million jobs, or just over 8.5% of all jobs in the Montreal region. Moreover, these sectors have close ties to university activities, because to a large extent, it is Montreal's universities that educate the qualified labour force working in these fields. Indeed, these universities have done much to further the development of Montreal's world-class technological sectors of excellence. As an example of the economic spin-offs they generate, it bears mentioning that for the metropolitan region alone, these sectors were responsible for \$18.9 billion in exports in 2001,³ or just over 13% of all Quebec exports.⁴

C. A powerhouse of research and training unique to Quebec

In addition to being home to many companies of the knowledge economy, Montreal is a powerhouse of research and training. As such, in addition to the four universities located on the Island, a university campus in Laval and one on the South Shore, the metropolitan region has four major schools and 201 university research centres. Close to 120,000 students pursue their studies in the Montreal region, representing just over 50% of all university students in Quebec. In short, Greater Montreal is the focal point of university activity in Quebec. For example, approximately 75% of all university research and development in Quebec is conducted in the Montreal region⁵ and more than half of the province's physicians and pharmacists are educated in its universities.

¹ BECKSTEAD Desmond and Mark BROWN, *From Labrador City to Toronto: The industrial diversities of Canadian cities, 1992-2002*, Statistics Canada, October 2003, p. 4.

² Fernand MARTIN, *Savoir et croissance, les universités: catalyseurs du Montréal métropolitain – Les retombées économiques*, Université de Montréal, February 2004, p. 6.

³ *Ibid.*, p. 9.

⁴ Institut de la statistique du Québec, *Tableau statistique du Québec 2004*, vol. 2, no 1, January 2004, pp. 53-54.

⁵ Fernand MARTIN, *op. cit.*, p. 9.

Not only does the City clearly set itself apart in this regard on the provincial scene, it also ranks first in terms of university research grants awarded in Canada, with \$802 million received in 2002.⁶ Montreal is the only Canadian city to boast two medical faculties, and ranks 9th in research and development on the North American scene.⁷ Inasmuch as the infrastructures the universities make available to researchers are – and we will discuss this later – often poorly adapted to today’s research needs, the fact that Montreal ranks ahead of all Canadian cities in terms of university research is an amazing feat that is a testament to the determination of Montreal’s researchers.

For the Board of Trade, R&D impacts on the economy in a variety of ways. For example, in 2001, research and teaching activities in Montreal’s universities generated some \$2.5 billion⁸ in payroll and goods and services expenses. However, their economic contribution extends beyond the research conducted on their campuses to the commercialization and marketing of their discoveries by private companies. On an annual basis, these activities amount to some \$1 billion⁹ in the Montreal region.

The metropolitan region’s universities count some 25,000 students from outside Quebec whose contribution to Montreal and Quebec society is a valuable source of wealth, both in terms of cultural exchanges and the possibility that some of them will settle in Quebec once they complete their studies. The Board of Trade believes that the university system is an excellent venue for attracting and accommodating talented individuals and that initiatives in this regard, such as the *Cité étudiante* project in Montreal, deserve support.

D. Major challenges to overcome

However, it bears remembering that in terms of economic development, Greater Montreal, while active in several areas of the knowledge economy, lags way behind its North American counterparts. For example, it ranks last out of 26 major urban centres in North America in terms of *per capita* GDP.¹⁰ Moreover, only 21% of its population over age 25 holds a university degree, placing it 20th out of 26 major urban centres, way behind Washington, D.C., which heads the list at 37%.¹¹

For the Board of Trade, it is clear that we have some serious economic catching up to do. In this regard, to reach Toronto’s *per capita* GDP, which itself only ranks 23rd out of 26 in North America, Montreal would need five consecutive years of economic growth at a rate that is 5% higher than Toronto’s. In this context, and despite an economic performance that places it at the back of the pack, Montreal must leverage the exceptional asset that its university milieu represents, a font of high knowledge that it must exploit to its full value and potential. Indeed, the ability of Quebec universities to achieve this objective, which is a determining factor for the metropolitan region of Montreal and Quebec as a whole, is being undermined because, compared to their counterparts in other North American regions, Quebec universities are under funded. This matter will be discussed in the next section.

⁶ Research Infosource Inc., *Canada’s Top 50 Research Universities 2003*, November 2003, website: <http://www.researchinfosource.com/top50.shtml> (last consultation 04/02/05).

⁷ Fernand MARTIN, *op. cit.*, p. 13.

⁸ *Ibid.*, p. 8.

⁹ *Ibid.*, p. 12.

¹⁰ Montreal Metropolitan Community: *Vision stratégique – Document déclencheur*, October 2002, p. 29.

¹¹ *Ibid.*, p. 40.

2. The underfunding of Quebec universities: a reality of great concern

Much like companies, the new competitive environment that Quebec and Montreal universities are facing is certainly not limited to Canada. This competition is being waged across North America and indeed, around the world. For example, for a scientific discovery to have an impact and bear fruit, it is not enough for the researcher to be the first in Quebec to make it, he must be the first in the world. Consequently, to be able to counter this competition, our researchers and universities must be able to rely on optimal development conditions and possess the necessary financial means and infrastructures to pursue excellence.

In this context, the university underfunding demonstrated by the Conference of Rectors and Principals of Quebec Universities (CREPUQ) is of great concern to the Board of Trade. In a study conducted in 2002 with the Ministère de l'Éducation du Québec, CREPUQ estimated the 2002-2003 operating deficit of Quebec universities compared with other Canadian universities to be \$375.3 million.¹² At a time when the competition is not limited to neighbouring provinces, it is equally disturbing to discover that the Quebec university system needs \$1.8 billion a year to match the funds available to its U.S. counterpart.¹³ Because the shortfall is a yearly occurrence, each passing year further erodes the ability of Quebec universities to compete with other institutions in the world. For the Board of Trade, this underscores the need to quickly resolve the issue of underfunding so as to permanently halt the disturbing slide of our universities.

The lack of funding becomes most apparent when our universities have to compete head on with the rest of Canada, the U.S. and Europe for the best professors and researchers. When the competition can offer better salaries, it makes it particularly difficult for Quebec to attract and keep talent. As the Board of Trade stated in its *Policy Statement*,¹⁴ "At a time when the creation of wealth relies on the mastery and innovative application of knowledge, the international competitiveness of the City of Montreal relies on a first-rate university system [...]. Universities must have the resources needed to produce top-level talent and create the synergy that will help attract and retain foreign professionals." Given that almost 75% of Quebec university research is conducted in Montreal, this is an issue that concerns all of Quebec.

3. Improving the funding of higher education: a necessity according to the Board of Trade

Given the importance of the university system for the Greater Montreal economy, and by extension, for Quebec's, the extent of the current underfunding calls for a significant re-investment in higher education.

¹² CREPUQ-MEQ, *Rapport du Comité conjoint CREPUQ-MEQ sur le niveau des ressources*, November 2002, p. 19.

¹³ Claude PICHER, 'L'heure juste sur les droits de scolarité', *La Presse*, March 15, 2003. p. E-3.

¹⁴ The Board of Trade of Greater Montreal, *Policy Statement*, March 2002, website: <http://www.ccmq.ca/asp/contenu.asp?lang=1&GrSection=7&Rubrique=236> (last consultation 04/02/05).

The Board of Trade believes that, before trying to establish who is responsible for assuming the costs of these additional investments, it merits asking who at the end of the road will benefit the most. The advantages of a high quality, world-class university system are felt on three levels:

- the students who, once they enter the workforce, will generally reap the benefits of their university education by earning higher salaries;
- the Quebec government, which will collect additional revenues from university-educated workers or from companies that use the technologies and techniques developed in the research milieus, thus allowing it to better fulfil its role vis-à-vis citizens; and
- companies, which increasingly rely on human capital and university-generated innovations.

In this context, the Board of Trade believes that everyone who stands to benefit should be asked to contribute. As such, students, the government and the business community should be called upon to contribute to higher education to meet our needs and expectations. In this section, the Board of Trade presents some of the ways these contributions can be made.

A. De-dramatize higher tuition fees

Insofar as students admit that the university system needs additional investment to maintain world-class teaching and training, the Board of Trade recommends that the government quickly contemplate increasing tuition fees.

At the present time, factoring in inflation and the freeze on tuition fees, it costs \$277 less per year, in constant dollars, to pursue university studies in 2003-2004 than it did in 1994-1995 when tuition fees were last frozen. In Quebec, simply indexing tuition fees to the cost of living would have injected an additional \$60 million into the system in 2003-2004 alone.¹⁵ Over ten years, that amount would have been almost \$251 million.

The fact is, Quebec has created the situation it is in today by maintaining a freeze on tuition fees. Indeed, a closer look at the Ontario and Quebec situations shows that, all things being equal, Ontario students contribute 164% more to their university system than the average contributed by Quebec students, i.e., \$4,923 per year versus \$1,862.¹⁶ For its part, the Canadian average, at \$4,025 per year, is more than twice what Quebec students pay.

The main reason cited to justify maintaining the freeze is the need to guarantee that all Quebecers have access to higher education. However, the facts increasingly show that this is nothing more than a dogmatic myth. In fact, enrolment figures in the rest of the country and in the U.S. show no correlation whatsoever between higher tuition fees and accessibility to higher education. Indeed, the Quebec experience in this regard seems to prove the same thing: In the years that followed the lifting of the freeze in 1989 by the Government of Quebec, the Ministère de l'Éducation observed an increase in the number of students in Quebec universities.¹⁷

¹⁵ According to CREPUQ, tuition fees in 2003-04, in constant dollars, were \$1,391, whereas had they been indexed to the cost of living, they would have been \$2,000.

¹⁶ Ministère de l'Éducation, *Consultation Document – Parliamentary Committee on Education for the Quality, Accessibility and Funding of Universities*, Government of Quebec, 2003, p. 20.

¹⁷ Government of Quebec, *Répertoire des organismes et des établissements d'enseignement*, Les Publications du Québec, édition 1996, pp. 299-332.

For the Board of Trade, increasing tuition fees is a sure way to improve university funding and to ensure these institutions can offer students a high-quality education. While a costly venture for students, higher education is a remarkably profitable and proven investment that will serve them well throughout their careers. In this regard, a recent study conducted by the TD Financial Group shows that the return on investment for students with a university education in Canada is somewhere between 12% and 20%, depending on their field of education.¹⁸ Thus, given the clear benefits they derive, the Board of Trade does not think it is right that by maintaining the freeze and not indexing tuition fees, students end up paying less for their education from year to year.

That said, the Board of Trade believes that there are many creative ways for students to assume a greater share of the cost of their education without rendering access to higher education beyond the reach of the less privileged. For example, tuition fees could vary according to such parameters as the income the graduates earn once they join the workforce or according to the costs inherent to their field of education. As well, part of the increase collected by universities should be systematically redirected to the government's financial assistance plan to ensure accessibility to less privileged students.

B. An indispensable government contribution

While supporting the idea of increasing tuition fees to finance higher education, the Board of Trade strongly opposes any reduction in the government's current contribution. To the contrary, the Board of Trade believes that the government should, along with students, make additional efforts to help put an end to the underfunding problem. As such, in addition to its current contribution, if the government injected \$1 for each dollar increase in tuition, it would send a clear, constructive message: the good health of the university system is critical for the economic and social development of Quebec society and that means everybody should do their part.

On this basis, the first thing the government should do is make up half of the operating shortfall of Quebec universities, estimated at \$375.3 million by CREPUQ – with the other half coming from the additional contribution by students. This new annual government investment of \$187.7 million would amount to an increase of 0.36% of its total budget and 1.7% of the total education budget of \$11 billion.

C. The business community: a call for greater leadership

For the Board of Trade, the Quebec business community – and especially the companies in the metropolitan area that benefit from the vitality of Montreal's universities – should also be required to do their part to promote the excellence of the university system. While the business community cannot be expected to contribute directly to the increased funding of higher education in the same manner suggested in this brief for students and the government, it can make a real difference by assuming a greater leadership role in education, training and research. In this regard, just as there is room for creativity in finding ways to increase student contribution, there are also new ways to explore in which companies can help the system.

Over the past few years, the private sector has often been one of the most generous investors, injecting money into the city's universities through foundations. In addition to continuing this practice, the Board of Trade believes the business community can do even more by involving more

¹⁸ TD Financial Group, *Investing in a post secondary education delivers a stellar rate of return*, January 2004, website: http://www.td.com/economics/topic/ca0104_education.pdf (last consultation 04/02/05).

players, be it companies or individuals. For example, in French universities, corporations are often the biggest donors to foundations, whereas in English universities, individuals are the biggest contributors. Why could it not become the current practice for businesses to invite and encourage their employees to also make contributions to their alma mater?

Another way to generate a ripple effect in corporate financial support would be to find ways to mobilize and coordinate the actions of the donors, for instance, companies in a given industry could get together and jointly organize the financial support they often already provide to universities. In addition to encouraging this practice among other members of the same sector—and increasing the amounts donated thanks to a ripple effect—this way of doing things could broaden the exchanges between academia and industry.

Still in the same vein of promoting a collaborative approach to funding universities where everyone must roll up their sleeves and contribute more, it would be particularly useful to set up new mechanisms whereby the private sector partners with students to defray the higher cost of tuition.

One of these mechanisms could be to allow employers to repay their employees' student loans and make their contribution an eligible expense as part of the 1% of payroll that corporations must invest in employee training. In addition to providing a recognized mechanism for encouraging companies to contribute to the funding of higher education, this proposal has the advantage of recognizing the value that the university education of new graduates brings to companies. Moreover, this formula could put to use certain funds, and in some cases large amounts, that are not being used by companies to train employees. From a longer-term perspective aimed at helping future students assume higher tuition fees, another option would be to call upon companies to encourage employees with children to save for their higher education. Thus, just as a company can contribute to an employee's RRSP, it would be able to do the same to the employee's Registered Education Savings Plan (RESP) and deduct the contribution as salary expense.

Conclusion

In many respects, the first two sections of this brief may appear to state the obvious:

- the economic engine of the Quebec economy absolutely needs the contribution of its university system if we want to see Greater Montreal and Quebec fully participate in the global knowledge economy;
- compared with other higher education and research institutions in North America, our university system does not have the means required to successfully compete;
- consequently, university funding must be promptly increased.

However, although these observations meet with unanimous agreement, the solutions proposed are often conflicting. In this brief, the Board of Trade presented the Committee with an approach it believes is both responsible and constructive.

In the Board of Trade's opinion, it is high time for all those who benefit from a quality university system to be held collectively accountable for its underfunding. Concretely, this means that businesses, students and the government alike must all do what it takes to boost its funding. This proposal stems from a simple observation: no one in Quebec has the means to assume the cost alone. As well, insisting that the government shoulder the full burden of university funding is tantamount to ensuring the decline of our universities, and by extension, that of Quebec in the knowledge economy.

Ultimately, the first step to resolving the problem of university underfunding in Quebec is to have students, the business community and the government agree that they all have to do their share. Once this has been done, it will be far easier to find creative, effective measures to optimize the contributions of each one while ensuring that financial considerations do not prevent young Quebecers from accessing a high-quality university education. The Board of Trade is submitting its brief to the Committee in the hope that it provides Quebec with an opportunity for constructive dialogue and brings us one step closer to building the consensus we need regarding university funding, i.e. that everybody must do their share.