

**Discussion Paper on the Proposed Canada Social Transfer
(Revised)
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Introduction

The Canadian Federation for the Humanities and Social Sciences is pleased to participate in this panel discussion on the future of the Canada Social Transfer. We have sought the views of leading experts from the fields of political science, education, economics and history to provide insight into the questions posed by the Caucuses on Social Policy and Post-Secondary Education and Research. The Federation's responses mark our initial formal foray into the policies, structures and mechanisms of the proposed Canada Social Transfer. We fully expect that as the discussion broadens across the country and within our own community of 30,000 researchers, practitioners and students in the human sciences, our positions on these issues will continue to expand and evolve.

Our comments on the Caucuses' questions are anchored within the context of the Federation's guiding principles in the discussion of post-secondary education and research funding:

- the federal government has a significant role to play in post-secondary education, while recognising that primary formal responsibility for post-secondary education lies with the provinces;
- both levels of government need to return the funding of post-secondary education to adequate levels; and
- there must be shared responsibility by both levels of government to achieve visibility, clarity and accountability in post-secondary education funding and spending.

For the last several years, the government has addressed some of its key federal priorities through differing funding mechanisms:

- i. federal-provincial transfers to fund the core operations of post-secondary institutions in Canada for the development of highly qualified individuals, capable of improving the standard of living and quality of life in the future;
- ii. direct research support through the annual funding allocations to the granting councils (SSHRC, NSERC, and CIHR);
- iii. support for research infrastructure through the Canada Foundation for Innovation and program funding for indirect costs;
- iv. direct student funding through foundations and program funding (Canada Graduate Scholarships, student loans, Millennium scholarships, Trudeau Foundation) to improve accessibility across Canada.

Decisions with regard to the Social and Post-Secondary transfer will be discussed against the background of these principles.

Question 1: Should there be two separate transfers?

The Federation supports the creation of two separate transfers for post-secondary education and for social programs primarily for the same reasons underlying the federal government's decision to separate health expenditures from the CHST – to improve the transparency, accountability and visibility of federal support.

Further, there is no compelling connection between social spending and education that makes it more advantageous to link the two categories. In fact, the blurring of spending among these discrete government functions when grouped within such a broad category as the CHST makes it impossible to know with any certainty whether goals have been met.

Therefore, the Federation believes the proposed Canada Social Transfer should be separated into a social transfer and a post-secondary education transfer.

Question 2: Should the federal or provincial governments withdraw from any of the fields?

The lines between federal and provincial support for and involvement in post-secondary education and research have become increasingly blurred over the years. Since 1967, the federal government has provided provincial governments with cash and tax transfers to assist them in the delivery of their post-secondary education programs¹, in addition to providing support for university research and student assistance. The vast majority of operating funding, however, comes from provincial governments. In 2001-02, this direct support totaled almost \$7 billion.² Over the past two decades, there have been sharp decreases in funding levels from both provincial and federal governments. University revenues from government sources dropped from 74.5% in 1978 to 55.6% in 1998, during a period of significant enrolment growth.³

Traditionally, there was an “implicit division of responsibility” between the two levels of government with the federal government supporting the direct costs of research, but not the indirect costs or infrastructure costs.⁴ Over the past five years, the introduction of funding for indirect costs and the creation of the Canada Foundation for Innovation signaled the federal government's entrance into areas that had been the primary domain of the provinces. Similarly, over the same time frame, the provinces introduced more applied and targeted research funding programs, having recognized the link between the level of research and the process of economic development. The need to match funds for research infrastructure provided by the Canada Foundation for Innovation has also caused the provinces' overall investment in research funding to grow. While the federal share remains higher, the figures in 2001 show provincial contributions now fund 9.3 percent of higher education research and development, with the federal government funding 21 percent.⁵ In some provinces, however, there are concerns that the

¹ AUCC, *Trends in Higher Education*, Ottawa, 2002, p.60.

² AUCC, p.60.

³ Paul Axelrod, *Values in Conflict*, McGill-Queen's University Press, Montreal, 2002, p.114.

⁴ David A. Wolfe, “The Role of the Provinces in PSE Research Policy”, March 1998, p.5.

⁵ AUCC, p.43.

increased funding for research has resulted in fewer resources available for core university operating support.

The net result of the crossover of funding between the federal and provincial governments into “non-traditional” areas, be they infrastructure or targeted funding, is greater amounts and sources of funding. Access to two levels of government provides for more sources of funding, helps balance cyclical phenomena and ensures that differing priorities of federal and provincial jurisdictions are both addressed. This can only be interpreted as a positive outcome for Canada’s researchers and research institutions.

However, as David A. Wolfe concludes, “while the result has undoubtedly been beneficial in terms of the amount and quality of the research being conducted, it is clearly more confusing from a policy perspective.”⁶ The Federation believes that it is imperative that the federal and provincial governments work in accord with one another to ensure that policies are clearly articulated to maximize the financial contributions and impact of both levels of government. We further believe that the federal government has a legitimate stewardship role to play in ensuring excellence in a pan-Canadian system of education.

Therefore there should be no withdrawal from these areas by either level of government, but rather a greater level of coordination between the two.

Question 3: Are the federal government’s social policy objectives best met by transfers?

As the Federation’s mandate lies in post-secondary issues, we have no comment to make on social programs except to say that a well educated population is, in itself, a major factor in improving the social environment.

Question 4: Should the federal government continue to fund such programs as post-secondary education through more transfers, direct spending, or a blend?

Transfers and direct spending are two distinct types of funding, with pros and cons for each type. The Federation sees the advantages of transfer payments as allowing for:

- longer-term, sustained commitments of federal spending in the area of post-secondary education;
- optimal flexibility on the part of the provinces to allocate resources where needs are greatest; and
- precludes micro-focused initiatives that threaten the autonomy of universities and researchers.

The risks involved in transfer payments are:

- the loss of accountability and transparency as to where the money is actually spent;
- the lack of visibility for the federal contribution; and
- a sense that the funding takes “longer” to reach the client due to the need for it to flow through two governmental allocation processes.

The characteristics of direct spending are equally two-sided. The appeal for the federal government is clear as direct spending allows them:

⁶ Wolfe, p.6.

- to gain recognition and visibility for their financial support of post-secondary education and research;
- to achieve federal policy goals through specific initiatives; and
- to shift funding into priority areas in a more timely fashion.

Three key difficulties are:

- from the provincial perspective, many direct spending initiatives require matching funds or a redirecting of existing funds to cover the additional expenditures required to implement the new federal program, which limits local authorities' abilities to respond to their own needs;
- the ability to shift funding on a more timely basis makes the direct spending initiatives more vulnerable, in the face of economic downturn or changing government priorities; and
- the federal-provincial tension arising from jurisdictional conflicts.

The federal government has increasingly turned to direct spending in the area of post-secondary education and research, while transfer programs which include funding for post-secondary education, on the other hand, are estimated to be some \$1.3 billion below 1993 levels. This strategy has ensured greater recognition for federal funds among users, has allowed specific programs to be developed and has had a positive effect in enhancing the research capacity of universities. On the other side, the provinces' fiscal capacity in the area has been reduced because of the necessity to match federal funds and the reduction in federal transfers has thus affected the universities' core operations.

The Federation sees that many of the difficulties associated with transfer payments can be solved by creating a separate post-secondary education transfer for the operating costs of the post-secondary education sector, with a long-term commitment at a guaranteed level of support. This would enable full accountability, but also flexibility *within the post-secondary education sector* on the part of the provinces, visibility for the federal contribution and stability for provinces and institutions.

There is still room and need for direct spending initiatives, especially in the areas of research and graduate student funding and student assistance. But there are concerns that the shift away from sufficient levels of transfer funding to increased direct federal spending has had the effect of disadvantaging research in the humanities and social sciences. While infusing much-needed research money into universities across the country, two early federal spending programs, Canada Research Chairs Program and the Canada Foundation for Innovation have channeled disproportionate amounts of funding away from our fields to the medical, natural and engineering sciences. In fact, direct federal transfers to the three granting agencies, the most fundamental support for research in Canada, have historically disadvantaged the human sciences. Of the \$1.7 billion federal grants to SSHRC, the Canadian Institutes for Health Research and Natural Sciences and Engineering Research Council in 2003-04, only 14% is allocated to SSHRC, despite the granting agency's responsibility for 53% of all university researchers.⁷

The Canada Research Chairs program allocated only 20% of Chairs to humanities and social sciences despite the fact that over half of all full-time university faculty work in the human sciences. The "Third Year Review of the Canada Research Chairs Program" report cites the low

⁷ "Facts and Figures: The Social Sciences and Humanities Research Council", August 2003, p.2.

number of Chairs in the social sciences and humanities disciplines as a continuing concern raised by Program and university stakeholders.⁸

The Canada Foundation for Innovation (CFI) presents a similar situation with extremely low levels of funding for research in the human sciences. An external evaluation of three major funds of the CFI shows that “only 3% of funds in the last two CFI competitions went to SSHRC faculty members”, and cites as a factor that “prior to CFI’s launch, the program objectives presented to the community by Industry Canada was ambiguous at best about the inclusion of the SSH fields, and the CFI program language in the first two competitions did not explicitly encourage SSH projects.”⁹

The Canada Graduate Scholarship program announced in the 2003 federal budget is a better model which allocates scholarships in proportion to enrolment levels, with 60% going to graduate students in the humanities and social sciences. This initiative demonstrates that it is not direct program funding in itself that routes funding away from human science research, but rather the structure and implementation of the funding. The Federation recommends that future direct spending be structured to reach equitably into all areas of research.

Question 5: What form should the funding within each transfer take?

If a transfer is directed to a particular area that direction should be meaningful, otherwise the point of distinguishing it is lost. At the same time, the federal government must respect provincial jurisdiction and the fact the provinces will often have a greater understanding of specific local needs and strategies. These points would argue against a block transfer on the one side and “colour-coded” transfers on the other.

In this sense, the *Canada Health Act* provides at least a rough model. The government should, in conjunction with the provinces, set out a series of principles and goals for Canada in post-secondary education. Many of the general principles of the CHA – public administration, comprehensiveness, universality, portability and accessibility – could also apply in the post-secondary education sector. The critical factor is that these goals must be jointly developed, accepted and shared by the federal and provincial governments.

The Federation raises the issue of whether the transfer funding should be based on a per capita assessment or rather a per student or a per participation rate assessment. We recommend a thorough study and modeling of the options to ensure that the effectiveness of the transfers is maximized.

Question 6: What, if any, is the appropriate floor level of funding for the social transfer?

Without an extensive study of the funding levels that together constitute the CHST, it is difficult to offer a definitive opinion on the floor level funding for the social transfer. Rather, the

⁸ “Third Year Review of the Canada Research Chairs Program”, Hickling Arthurs Low Corporation, November 6, 2002, p. 8.

⁹ “Evaluation of the Innovation Fund, University Research Development Fund, and College Research Development Fund: Final Report”, Bearing Point Consulting, May 2003, p. 19.

Federation sees two overriding concerns that must be factored in when calculating the new floor level of funding:

1. It is imperative that the existing formulas not be used, but rather replaced with new formulas so that inequities and biases in the current model are not propagated into the future funding streams for post-secondary education; and
2. The overall level of funding to the social transfers must be returned to pre-program review levels. Post-secondary educational institutions continue to face tremendous pressures on their core operations due to the drastic decreases in funding.

Question 7: What is the appropriate escalator for the transfer?

The recommendations on an appropriate escalator depend upon the establishment of an appropriate floor level of funding. As indicated in the previous question, an injection of funds in the order of \$1.3 billion is required to reinstate federal funding to previous, adequate levels. Should this funding be forthcoming, the Federation recommends, at minimum, an escalator equivalent to the CPI should be built in. It is important that the federal provincial transfers be linked only to such principles, and not to specific performance indicators, so that the provinces and the institutions themselves can rely upon stable, long-term and guaranteed funding.

For direct spending, annual CPI-equivalent increases are also required as programs that depreciate by the rate of inflation are effectively subject to reduced levels of real program expenditures. It may also be desirable to link escalators to a set of goals mutually agreed upon by the federal and provincial governments. How ambitious the goals and the time-frame for achieving them would be the subject of extensive policy discussion. For example, funding increases might be benchmarked against participation rates within an OECD or other international context.

Questions 8/9 : What conditions, if any, should be attached to current (8) and future (9) transfer funding?

It is necessary to balance the provinces' need for stability and certainty in transfer funding with the federal government's and post-secondary education sector's need to know that the funding will actually support post-secondary education. As such, the funding should be conditional only upon adhering to the mutually-agreed upon principles described in Question #5.

There must be accountability for adhering to the principles set out for transfer payments or to the conditions attached to direct spending. Once agreed to, these conditions or goals should be binding and include penalties if not met. In this manner each province could employ strategies and policies it thought appropriate within such goals. Canada would have a high set of standards and a national framework for post-secondary education. All parties would be involved in setting those standards and then meeting them.

Question 10: Should there be a Council, similar to the Health Council for each of the transfers?

The Federation has not discussed this explicitly at the Board or Executive level. However, it is my view that the Council of Ministers of Education of Canada (CMEC) is the natural body to develop the standards and to monitor achievement of those standards. A permanent position for a federal representative would need to be added to the council. One of the difficulties of the federal government's current relation to the CMEC is the absence of a constant Minister representing its interests. The post-secondary sector is an extension of both economic and human development and this is reflected in its links to both Industry Canada and Human Resources Development Canada. However, the division among many portfolios limits the federal government's ability to act decisively on this issue and establish continuity with provincial post-secondary counterparts. It is therefore important that a single representative with links to both Industry Canada and HRDC be designated to interact with whatever mechanism is put in place.

Question 11: What programs would the council cover?

The CMEC could provide input on all issues but would primarily be concerned with transfer programs.

Question 12: How would it operate in the absence of a governing act?

The use of CMEC and an agreement on principles and goals might obviate the need for legislation. It is hard to be certain, though, until further discussions are held.

Question 13: What existing infrastructure could be used by the Council?

In addition to using the existing CMEC as already discussed, organizations like the Association of Universities and Colleges of Canada (AUCC) and Canadian Association of University Teachers (CAUT) as well as the Federation itself can be integrated into a more formalized consultation and implementation structure. A government infrastructure might be necessary, however. The Canadian Learning Institute, funded in the last budget, might be provided with a valuable role as a research body and support to both levels under such an arrangement.

Question 14: Do we need the equivalent of a Canadian Institute of Health Information?

The CIHI has been extremely useful and any program with principles and goals inherent in transfers and direct spending will require good research, assessment, statistics and information. Once again, the announced Canadian Learning Institute might be a natural place to look for such a role

Question 15: How would disputes be resolved?

The clearer the principles and goals, the clearer the expectations and accountability will be, the fewer disputes will rise up. Ideally, the mandating of the CMEC and the provision of objective research by the Canadian Learning Institutes would ultimately limit the number of areas for dispute. Failing their prevention, however, we would simply suggest – the usual way!

Conclusion

In summary, the Federation believes the overriding issue in any discussion of the future Canada Social Transfer is the adequacy of funding for post-secondary education. Flowing from that are the mechanisms that will ensure the optimal visibility and accountability for the federal funding contributions. A separate post-secondary education transfer that is stable, long-term and guaranteed will provide provinces with the flexibility they need to achieve their goals, while offering the accountability necessary to know that funds do indeed flow to the post-secondary education system.

About this Paper

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About the Federation

The Canadian Federation for the Humanities and Social Sciences represents 69 learned societies, 71 universities and colleges and over 30,000 researchers. It manages the permanent secretariat of the *Congress of the Humanities and Social Sciences* which is the largest academic gathering of its kind in North America, organizes the *Breakfast on the Hill Seminar Series* and administers the *Aid to Scholarly Publications Programme*. The voice of the human sciences in Canada, the Federation promotes excellence in the social sciences and humanities and makes representation to government on their behalf on issues of concern to the community.

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