

Funding Lifelong Learning: Exploring the Potential for Learning Accounts in Canada

Discussion Paper

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Introduction

Lifelong learning is being embraced as the new paradigm in education policy. The idea is for learning to continue beyond the initial cycle of formal education. Advocates, such as Councils for Ministers of Education, Canada (CMEC), Human Resources Development Canada and the Organization for Economic Co-operation and Development (OECD) see lifelong learning as being an important means to continually engage citizens by developing learning faculties through life, thereby reducing the possibility of economic and social exclusion. Lifelong learning is particularly important in light of Canada's ageing population as relatively more Canadians will have completed their initial cycle of education and be faced with upgrading this education.

The economics of lifelong learning is based on the need to continually update education in the face of rapid technological change. Rapid technological change causes human skills to depreciate quickly.¹ The so-called "new growth theory" emphasizes the importance of education and skills (or human capital) in explaining differences in economic performance between countries. In addition, there is a concern that differences in education are at the basis of growing polarization in incomes.

For most of this century, education has been a going concern of the federal and provincial governments. Canada now spends around 60 billion dollars annually on formal education, about 7.5 per cent of Gross Domestic Product (GDP).² This makes Canada among the world leaders in spending as a share of GDP. Almost 90 per cent of this expenditure is supported through taxation. Proportionately the Canadian system is more dependent on public money than Canada's competitors.

The rationale for government funding is largely based on the need to ensure universal access to education and a basic education for all citizens. This has led to mandatory attendance at publicly-funded institutions to the junior secondary level. For most of the post-war era, this level of education was sufficient to ensure a relatively smooth transition from school to work. The relatively few high skilled jobs were filled either through immigration or through higher education. As relatively few people went on to higher education, that system

(and its expansion) was predominantly and comfortably funded through taxation.

The major trend over the last 20 years has been increasing returns to higher learning resulting in growing demand for post-secondary education. Although compulsory education continues to end at junior secondary school, socio-economic imperatives have led to much longer period of non-compulsory education than ever before. A high school diploma is considered the basic entry qualification into the labour market and post-secondary credentials are now viewed as necessary to secure the comfortable middle class existence to which many Canadians aspire. Consequently, full time post-secondary enrolments have expanded. Higher education in Canada, formerly an exclusive good, is fast becoming a mass market good.

This trend has had the effect of elongating the school-to-work transition period into early adult life. With this elongation has come fragmentation, as people are more inclined to temporarily interrupt their education, or return to education while working, as part of an ongoing process of self improvement.

This increasing demand for higher learning has presented challenges to policymakers especially as Canada's fiscal problems happened to coincide with these increasing demands. The traditional higher education system has responded by increasing fees to students and by expanding to accommodate increases in full time enrolment.

Although there has been considerable expansion in the system, it has led to an elongation of the initial cycle of education but not necessarily to lifelong learning. This may be due to the natural tendency of colleges and universities to focus on the young full time learner.

Consequently, some are questioning the entire basis for maintaining the institution-centred basis for higher learning and arguing for more of a modularized, student-driven approach. Proponents of reform are looking at innovations abroad, particularly in the United States, which has seen many new suppliers in the lifelong learning market. Technology is breaking down barriers to delivering courses and new market entrants are less bound by the traditional delivery system of universities that combine knowledge generation, knowledge dispensing and social networks.

The explosion in the demand for higher learning and the prospects of new market entrants presents major challenges to policymakers in education. The emerging system is one where students will likely pay more for their learning. Indeed, tuition fees have increased by over 100 per cent in the last 10 years and

tuition now accounts for over a quarter of the operating revenue of post-secondary institutions. These increases in fees are being countered through more student-centred public funding. For instance, the 1998 federal budget announced the creation of the Canada Education Savings Grant (as a supplement to Registered Education Savings Plans) and the Millennium Scholarships Fund. These measures are targeted primarily at young Canadians seeking to pursue full time post-secondary studies.

The need for lifelong learning warrants consideration of funding education beyond full time studies. Many people are not making smooth transitions from secondary to post-secondary school. Moreover, people are much more inclined to purchase education and training to serve their specific needs in relation to flexible career paths. They often do so on a part time basis. This reality lends itself to exploring a different approach that would see a store of savings (a “Learning Account”) combined with a learning entitlement that could be drawn upon to fund education and training throughout a lifetime. Such a system might be a way to advance the development of a broader and more segmented market in higher learning.

Overview of the Report

This report will review the prospects for establishing learning accounts in Canada. In addressing this topic, the report will examine some of the emerging trends in lifelong learning, both in terms of demand in Canada and on the supply side. It will consider how the new paradigm of lifelong learning impacts the role of government funding.

Other countries are also grappling with the financing implications of lifelong learning. Canada can therefore draw on the approaches of other countries as it moves forward with its own innovations. Specifically, the report will consider developments in the United States, Australia and the United Kingdom. The United States is the epicentre of the major forces that are greatly diversifying the market in continuing education. Australia has recently completed a major review of its higher education system that has addressed many of the issues that are pertinent to this report.³ Meanwhile, the United Kingdom has moved ahead in introducing a system of Individual Learning Accounts targeted at those who are not presently enrolled at an educational institution.

The report concludes by proposing reforms to the current system of higher learning based on the introduction of a student-centred funding model that combines a learning entitlement with saving.

Lifelong Learning in Canada: An Overview

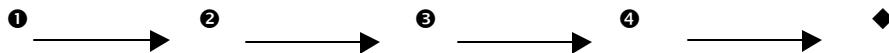
There are two questions that are pertinent to the discussion of the applicability of learning accounts to the Canadian situation: first, what is happening to the market in lifelong learning and second, where in this system is financing an issue? One way of considering these questions is to think in terms of a lifecycle of education leading to work. Exhibits 1 and 2 provide a simple scheme for understanding how formal learning varies through most Canadians' lives.

Exhibit 1
A Simple Scheme of Formal Education

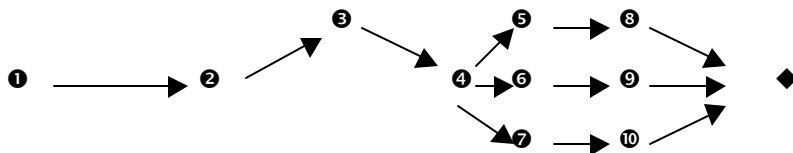
Compulsory Education		Non-Compulsory Education			
Elementary	Junior Secondary	Senior Secondary	Vocational Training	Colleges and University	Adult Education & Training
<i>Fully Subsidized</i>	<i>Fully Subsidized</i>	<i>Fully Subsidized/ Forgone Earnings</i>	<i>Partially Subsidized/Forgone Earnings</i>		

Exhibit 2
The Changing Lifelong Learning Paradigm

Traditional Education and Training Model



Modern Education and Training Model



Source: L. Shipley, "An Overview of Adult Education and Training in Canada" in, Human Resources Development Canada and Statistics Canada, *Adult Education and Training in Canada*, 1996.

There are a number of features of the emerging market in education and training that are depicted in Exhibits 1 and 2. Historically, the primary responsibility for education and training in Canada has rested with the

individual in a system where subsidies are loaded at the front end of formal education. As early education is compulsory and fully subsidized, there are relatively few educational choices to be made. The issue of choice becomes more important at a later stage of education and at a time when the individual is required to directly pay for these choices. Initially, the cost to the student is associated with time invested and forgone earnings but later it involves time, forgone earnings and the cost of tuition and supplies. The lifelong learning paradigm is in many ways a much more complicated system because there are many more paths to continuing non-compulsory education, in terms of objectives, timing and outcomes.

The Initial Cycle of Formal Education

Exhibit 3 depicts the current educational pathways from the perspective of a survey of 18 to 21 year old cohort moving through the system between 1991 and 1995. The first thing of note is the relatively high initial drop out rate from secondary school. Although national enrolment of 16 year olds is high, there is a considerable drop off in enrolment among 17 and 18 year olds. Some of these people eventually return to complete their high school diploma, yet compared to other industrialized countries, Canada has relatively few people who have achieved a secondary school diploma. In 1994, only 71 per cent of 25 to 64 year olds had achieved this level of education compared to an OECD average of 77 per cent.⁴

The majority of the high school graduates acquire at least some further education towards a diploma or degree whereas high school leavers are much less likely to be in further education. In a prerequisite-based system, many high school leavers lack the required credits to take advanced learning. This barrier may be overcome later in life when students may gain entrance as mature students. None the less, over 70 per cent of high school leavers and high school graduates with no further education and training indicated that they intended to pursue further education and training in the future.⁵

Paradoxically, Canada has one of the highest rates of post-secondary enrolments and graduation in the world. According to the School Leavers Follow-Up Survey, 70 per cent of 18 to 21 year olds had some further education and training after high school. Almost half of Canadians between the ages of 25 and 64 have a post-secondary degree or diploma.⁶

As Canadians' initial cycle of formal education has become more elongated, it has also become more fragmented. Canadians often take a long time to get their credentials and many will start a program leading to

a credential and never finish it. It is very common for young Canadians to “stop out” for a term or two, or switch streams. For instance, about 1 in ten high school graduates did not graduate between ages 20 and 22. Based on the 1995 School Leaver’s Survey, only about half of the high school graduates that went on to post secondary studies actually completed their program in the standard period of time.⁷ It’s unclear, based on this data, exactly how many might never complete their degree or diploma. But given the high numbers, it’s reasonably likely that there are many Canadians who have uncompleted programs of post-secondary study. As an indication, Statistics Canada’s Labour Force Survey shows that there are over 1 million Canadians between the ages of 25 and 65 who have some post-secondary education but who have not completed their diploma or degree.⁸

Exhibit 3
Educational Flow Of Youth Aged 18 to 20 in 1991, and 22 to 24 in 1995

1991 High School Status	63 %			16%	21 %
1995 High School Status	85 %			14%	1 %
1995 Beyond High School Status	69 % Further Education and Training(E&T)			17 % No Further Education and Training	11 % No Further E&T
1995 Post Secondary Status of High School Grads	14 % Some Post Secondary	10 % Univ. Grads	25% Other Post Secondary Grads	20% Post-secondary Students	3 % More E&T

Legend

Graduates	■
Continuers	■
Leavers	■
1995 High School Continuers	■

Source: Human Resources Development Canada, *High School May Not Be Enough: An Analysis of Results From the School-Leavers Follow-Up Survey, 1995*. Cat. No. SP-105-05-98E, 1998. Chart 2-1.

Many of these people may like to pursue their higher credential on a part-time basis. However, part-time enrolment in universities and colleges has actually been declining since about 1992. In 1992, part-time enrolment at universities was 316 thousand compared to 245 thousand in 1998.⁹ For community colleges, part time enrolment was about 184 thousand in 1992, declining to 154 thousand in 1997. These declines occurred at a time when demographic factors would suggest that there should be an *increase* in part time enrolment.¹⁰

These declining enrolments in part-time education may be in response to rapid increases in tuition. They may also be a reflection of the current institutions focusing on their main clientele, the full-time student. Full-time enrolments continue to expand at post-secondary institutions. The adult learner may be the loser in this process as the supply side in Canada caters specifically to full time learners in terms of pricing, course structure, and hours of operation.

Transition into Work

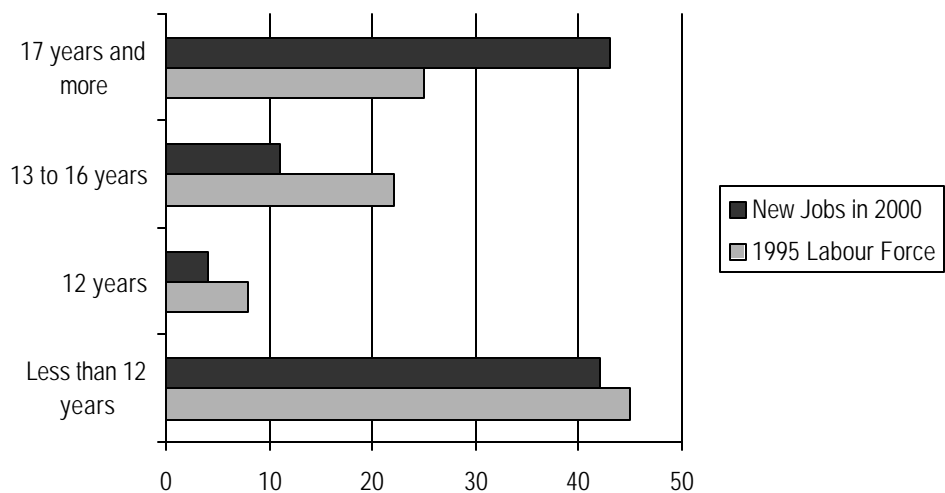
Formal educational credentials are the currency of the Canadian labour market. A significant skewing of labour market outcomes based on education has materialized.¹¹ This wage dispersion has been particularly evident for unskilled and semi-skilled men. Although the growth in overall labour productivity over the last 20 years has been weak, the *distribution* of market earnings is increasingly skewed toward those with higher formal educational qualifications. Undoubtedly, this is a factor in increasing full-time post-secondary enrolment.

According to Human Resources Development Canada, the labour market will continue to be polarized between jobs that require relatively little schooling and those that require a lot of schooling (Chart 1). Although the level of schooling has increased in recent years it is still under 13 years.¹² Even with Canada's high rate of post secondary enrolment, HRDC anticipates that the skill level of the workforce will be short of meeting the demand for high levels of skill.¹³

HRDC's view of the emerging labour market presents a particular challenge for those who graduate from secondary school but who are short of receiving a post-secondary degree, diploma or certificate. These people may be at risk of being underemployed, competing for jobs that require less education than they have obtained.

This development would not appear to present as much of a challenge to young people who stay in school until achieving a post secondary credential. It becomes a bigger issue for those who leave the formal education system before obtaining a higher credential. Often these people will have entered the labour force with their lower level credential, any additional schooling short of attaining the next credential may be wasted.

Chart 1
Education and Training of the Workforce in 1995 and Job Creation Between 1995-2000, Per Cent, Canada



Source: Human Resources Development Canada

Apparently, many school leavers do intend on returning to school but may face work, financial and family responsibilities that make this problematic. Often their work setting will not encourage them to pursue further education and training. They may then get caught in a rut of relatively low earnings and low education.

Three recent trends in the labour market increase the likelihood of this happening. First, in the 1990's, the direct cost of continuing education at the post-secondary level has increased at a faster rate than wages. This is due to post secondary institutions relying relatively more on tuition and less on government grants.¹⁴ Second, small firms are playing a disproportionate role in the creation (and destruction) of jobs. Small firms are much less likely to offer their employees formal education and

training or, for that matter, encourage them to pursue this outside of work.¹⁵ Third, non-standard forms of employment such as part-time, temporary (contract work), multiple job holding and own-account self-employed are on the rise, particularly among young people. Again, these work arrangements are less likely to be combined with employer-sponsored training.

A major concern in these cases is the possibility of “deskilling”, when a dead-end job fails to build on the skills obtained through formal education. The prospects for “deskilling” are, of course, greatly reduced when skills continue to be developed in a workplace setting.¹⁶

Adult Education and Training

A major driver of lifelong learning is the continual need to update knowledge and skills in the face of change. This has particularly affected organizations that are attempting to improve performance through technological enhancements and management innovation. The continual improvement ethos has led to less stable career paths and a need to upgrade skills with relatively short bursts of learning.

A typical pattern is as follows: a person reaches a certain level of education, enters the labour force, and then discovers that further education is required in order to advance their career. This advancement may hinge on upgrading skills and becoming suitably accredited. Professional associations have developed systems of accreditation that are closely tied to workplace or legal requirements. Examples include the Canadian Institute of Management, Purchasing Management Association of Canada, and the Human Resources Professional Association. Community colleges and universities have been particularly adept catering to the market for professional credentials. In addition, some larger workplaces have developed their own systems of accreditation.

Data from the most recent Adult Education and Training Survey (AETS, 1998) provides useful insights into the nature of education and training after initial schooling.¹⁷ This survey is focused on those who have left the initial cycle of formal education and who are continuing in education and training either on their own account or with the sponsorship of their employer. (Full time education is included in the survey when an employer has supported this education.)

To begin, about a quarter of the adult population in Canada (17 and over) is currently involved in further education and training. Interestingly, these rates have continuing education have actually remain constant (or

even declined slightly) in the 1990's. As with part-time post-secondary enrolments, if Canadians had embraced lifelong learning, we would expect to see an increase in the rates of adult education and training. This has not occurred.

In terms of distribution across age, the rates of education and training are actually fairly constant up to about age 55, at which point the rates fall off significantly. Of greater importance in explaining differences in the incidence of continuing education and training is existing education (Table 1). It seems that higher levels of education engender an awareness of the benefits of continuous learning.

Table 1
Participation in Adult Education and Training, Canada, 1998

	Population	Participants	Rate (Per Cent)
<i>By Age</i>			
17 to 24	3186596	1150980	36
25 to 34	4605980	1549370	34
35 to 44	5124593	1630493	32
45 to 54	4003221	189646	30
55 to 64	2591733	374451	14
65 and Over	3528929	174020	5
<i>By Educational Attainment</i>			
0 to 8 years	2416764	107678	4
Some Secondary	3833267	566376	15
Secondary Graduates	4471467	969593	22
Some Post Secondary	2211357	747076	34
Post Secondary Certificate/Diploma	6630293	2109035	32
Post Secondary University	3498903	1569202	45
Total Participants	23,059,052	6,068,961	26

Source: Statistics Canada, Custom Run from 1998 Adult Education and Training Survey

Canadians with higher levels of education are also more likely to have their further education be employment-related and supported by the employer. This is a pattern that is broadly consistent across industrialized countries.¹⁸ Although over 70 per cent of the participants indicated that their further education and training was job-related, the rates for those with a university degree were 75 per cent compared to just over 60 per cent for those with high school or less. Over 65 per cent of job-related

training is concentrated in the areas of engineering and applied sciences, business administration and health professions.

The great majority of education and training activities are courses (78 per cent) as opposed to programs of study (22 per cent). The former are single events designed to upgrade skills whereas the latter are a series of courses that lead eventually lead to a degree, diploma or certificate. These findings are consistent with the characterization of adult learning as short bursts of activity designed to upgrade knowledge and skills. It also reflects the decline of part-time post-secondary enrolment at universities and colleges in favour of other modes of delivering education and training.

**Exhibit 4
Distribution of Adult Education and Training**

Total Participants	Job Related	Personal Interest
6,068,961	4,358,739	1,710,222
<i>Source of Support</i>	Employer-Sponsored	Employee Paid
	3,237,916	1,178,712

Source: Statistics Canada, Custom Run from 1998 Adult Education and Training Survey

How Does Canada compare to competitors on employer-sponsored training? The Conference Board of Canada has recently conducted a standardized comparison to address this question. Their calculations show that Canada does not favour well when compared to competitor countries on a number of key indicators (Table 2).

Supply Side Developments

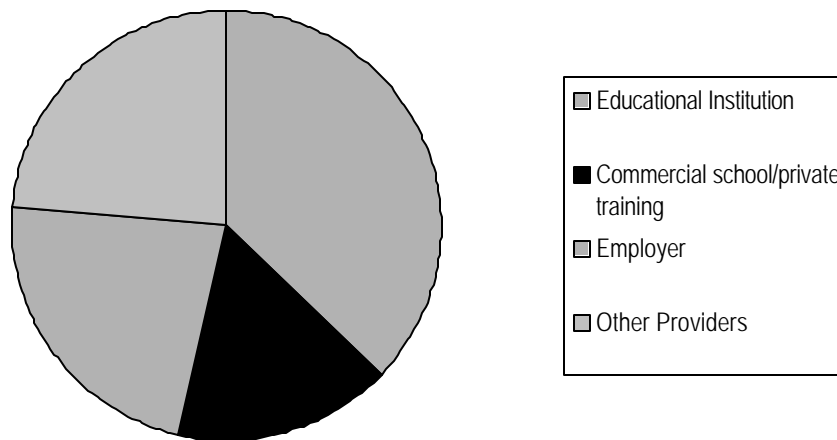
A key distinction between adult education and training and the initial cycle of formal education is on the supply side. There is a much greater diversity of suppliers to the adult education and training market (Chart 2) to full time education.

Table 2
Organizational/Individual Investment in Training and Development, 1997

Ratio	Canada	United States	Europe	Asia/Pacific
Total Training expenditures per employee (Can. \$)	\$776	\$898	\$1328	\$822
Total training expenditures as a percentage of payroll	1.6	1.8	3.0	2.5
Percentage of employees receiving training	70.3	74.3	75.5	70.7
Employee to internal training ratio	387:1	394:1	305:1	257:1
Training payments to outside companies as a share of total training costs (Per cent)	37.1	27.0	45.4	28.4

Source: Conference Board of Canada. *Performance and Potential 1999* (Ottawa: Conference Board of Canada, 1999). Table 3, p. 62.

Chart 2
Suppliers to the Adult Education and Training Market, By Number of Activities, Canada, 1998



Note: Personal interest courses are excluded.

Source: Statistics Canada, Custom Run from 1998 Adult Education and Training Survey

Higher learning has been dominated by publicly-chartered institutions. These institutions have competed largely on the basis of their local presence, very high degree of public subsidy and their license to award degrees and diplomas that have a social and economic currency. For the

most part, these institutions have drawn upon provincial markets to attract students. Institutions have developed their own residency requirements and unique systems of prerequisite learning. These institutional characteristics provide an incentive for students to remain with one institution until completion of a credential. The system is organized around students taking a program of courses leading to a marketable credential. Colleges and universities have spent a great deal of time and effort to differentiate or “brand” themselves based on subject specializations, particularly at the post-graduate level.

Technology is challenging this traditional model of higher learning. The main impact of technology is to reconfigure the spatial aspects of learning and therefore break down barriers to market entry and student choice. It is now possible to deliver courses across distances through the Internet so that Canadian institutions of higher learning will increasingly compete for students with other suppliers both within and outside of Canada. Over time, the “branding” of institutions of higher learning will increasingly cut across provincial and national boundaries.

Communication technology drives down the cost of delivering learning. Advanced pedagogues use this technology to deliver learning as effectively as the old “chalk and talk” system. This is ushering in an era of “mass customization” or modularized learning, where a student selects a series of courses tailored to a specific learning need.¹⁹

Some recent postings to a continuing education online discussion group provide some insights as to what the future may hold:

“Universities must look not only at what they are offering, they must look at the cost of what they are offering (it will have to be a lot cheaper), and they will have to look at the content of what they are offering (it is going to have to be much more student-centered).

On the horizon now - but speeding forward - is the concept of “educational objects” ...which consist not of courses but rather of course “components”. Courses themselves - if it even makes sense to talk about courses *per se* – will consist of collections of educational objects assembled dynamically according to student needs and interests.

How will the individual professor compete with such a system, especially when (a) professor - earning a top notch salary - can only teach three classes of twenty students each?”.....

“Business will drive this primarily... employers will say ... we want you to have X degree ... or, interpreted more loosely .. Y array of courses ... and, we really don't care WHERE you get them so ... an astute student will go cyberspace shopping amazon.courses.com ... to see if he/she can fill up his/her course shopping cart ... and satisfy Y in this way ... any bets on how it will be before this is commonplace?”²⁰

Learning institutions will ultimately compete over a broader market on the basis of price and quality. Distance education was originally viewed as a vehicle for reaching students in remote areas but increasingly it is the basis for direct competition between institutions of learning. The residence-based system of higher learning will remain for those who want a fuller experience of academic life. But those focusing specifically on learning outcomes will have many more choices to satisfy their needs.

The quality control part of the system is likely to be sorted through by the market. Professional associations already have a well-developed system of accrediting learning and there is little reason to believe they will not recognize courses taken from institutions that have developed international brand names. Moreover, industry leaders are developing their own systems for accrediting learning. For instance, Microsoft has developed its own system of technical accreditation (Microsoft Certified Systems Engineer) around which educational providers and employers are organizing the school to work transition.

Admittedly it is difficult to see any major trend toward private educators or distance learning across borders in the current Canadian data. None the less, these emerging supply side issues are very pertinent to any discussion of the funding of lifelong learning. Innovations in learning should allow for greatly reducing the per student costs of learning. The public policy issue of access has usually been addressed on the demand side of financing with little emphasis on improving the cost effectiveness and incentives of learning institutions. Canada currently maintains one of the highest cost structures for tertiary education in the world.²¹ If Canada embraces the new learning technologies, it should be able to produce the better learning outcomes and reach more learners in a cost-effective manner.

Moreover, the diversification of the supply side presents a further opportunity to have more of the financing of learning channelled through the student as opposed to through institutions. The funding of all forms of post-secondary education is likely to fall increasingly on the student and there will be greater differentiation in the prices for various courses. This is especially true for adult students who have left the initial cycle of formal education. As students and employers pay more, they are likely to be more conscious of the relationship between price, learning and outcomes and make more demands on institutions to respond to their needs.

Financing Lifelong Learning in Canada: Policy Issues

Rationale for Government Funding

The rationale for public support for education and training is based on a number of perceived market failures. Universal primary and secondary school education is seen as being critical to ensuring a basic level of numeracy and literacy skills for all citizens. In the absence of public requirements and funding, some citizens either may not choose to educate children or may face financial barriers to doing so. Compulsory education is a “merit good” in that it has significant spillover effects for society in terms of ensuring a basic level of social skills.

Non-compulsory education, beginning at senior secondary school, presents another range of public policy issues. Here, a concern is that private capital markets may underfund individuals’ education. At the individual level, there is a degree of uncertainty around the returns to education and these returns tend to be realized over a long time period. This may make it difficult for certain individuals to borrow for their education, especially for those from lower income backgrounds.

Another manifestation of the under investment problem, is employer-sponsored education and training. There may be a tendency for firms to target their training on those parts of its workforce where it can recoup the largest benefit and on those processes that are unique to its competitive position. This may result in firms targeting training on middle-aged, highly educated workers (who are less mobile) and on non-transferable skills. The Canadian data would seem to bear this out.

On the other hand, the support of lifelong learning via taxation may have a number of shortcomings. Often advocates of higher public subsidies for education will include the benefits of further education but not the distortionary impact of raising taxes.²² Further, although financial considerations are an important, access to higher learning is also based on cognitive ability and desire. A number of studies have found that the demand for higher education is related to families that value and expect it for their children.²³

In general, governments have to strike a balance between society’s support and individual support. The returns to higher education tend to be focused less on society and more on the individual.²⁴ These outcomes also tend to be dispersed depending on the type of education taken and the abilities of the individual. Consequently, the taxing of citizens with lower

academic qualifications to subsidize higher full time learning may actually worsen equity. This may be offset through progressive taxation if higher academic credentials result in higher earnings.

If Canada has untapped potential for developing its human capital, equity may be served by extending the financial incentives to part time students who will also, presumably, become more productive with more education. This is the crux of the matter in discussing financial support for lifelong learning because most of the formal learning that takes place after the initial cycle of education is undertaken on a part-time basis and/or within a work setting.

Current Realities and Funding Lifelong Learning

In calculating the economic and social returns to learning, researchers tend to rely on broad aggregates of learning and use educational credentials as a proxy for learning. This way of looking at the issue may overly simplify the complexity of lifelong learning in Canada. For instance, it leads to a view of education as a linear progression through formal programs culminating in academic qualifications and leading to stable careers. As the forgoing has demonstrated, this does not reflect the reality of lifelong learning in Canada. Lifelong learning is characterized by a considerable amount of flux as people sort through the type of education that best suits their abilities and aspirations. Given the dynamic nature of the Canadian labour market, the relationship between abilities, education and aspirations will be subject to continual appraisal.

A linear approach may also underestimate the impact of workplace learning and learning in conjunction with work in the broader scheme of things. Canada's relatively open system of learning encourages people to sample different streams and return to the system once they have narrowed down their interests. Indeed, work experience will play a key role in determining where to focus continuing education. There is a symbiotic relationship between firm-specific training and continuing education designed to enhance portable skills. Other research has found that outcomes will vary significantly depending on post-school, job-related investments, even for people with post-secondary education.²⁵

These facts, combined with innovations on the supply side of continuing education, call for reappraisal of Canada's system for funding lifelong learning.

Financing Lifelong Learning

Most Canadians do not encounter major issues pertaining to financing of lifelong learning until post-secondary education. Up to that point, the system is primarily funded primarily through provincial and local revenues. Private educators account for little more than 5 per cent of total expenditures on elementary and secondary education in Canada.²⁶

Costs for a High School Diploma

Given Canada's relatively high initial drop out rate, there may be a financing issue for those who wish to complete their secondary school diploma. Based on the 1995 School Leavers Survey, about a third of secondary school leavers will return to complete their diploma soon after leaving. Many pick up where they left off at a provincially funded institution. But almost 15 per cent of the initial secondary school enrolment will still not have completed their diploma by their early 20's. These people may be faced with directly funding their continuing education in addition to managing education in relationship with other work and family responsibilities that they may have taken on since leaving secondary school.

Exhibit 5 Example of Costs for Those Lacking a High School Diploma at the Community College Level, 1999

General Educational Development Preparation	\$30 per course
General Educational Development Test	\$10 per testing session
Night School	\$100 per course
Day time training	\$100 per course
Provincial Examinations	\$10 to write each exam
Adult High School Diploma	\$25 to apply
Correspondence Course	\$120 per course and \$10 registration

Source: New Brunswick Department of Education

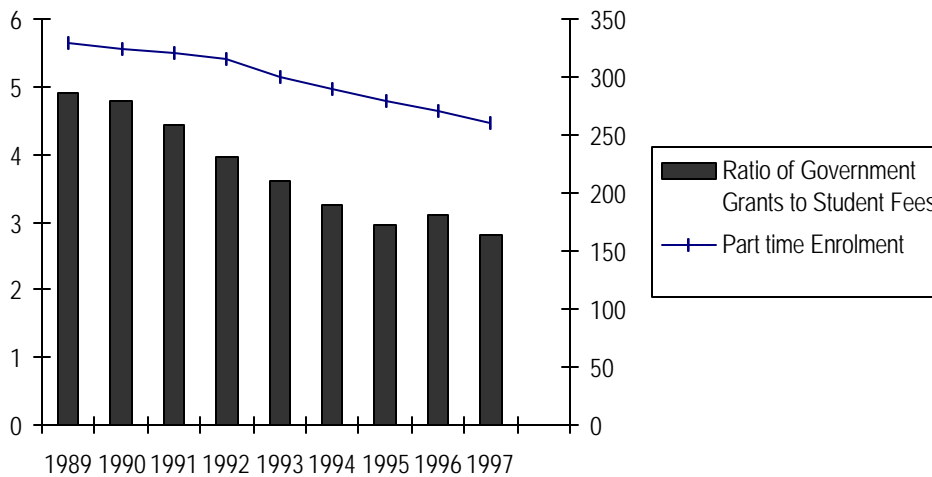
It is difficult to get a complete picture of how much it costs to obtain a secondary school diploma once someone has left the initial cycle of education, but direct financing does not appear to be a major barrier. An informal survey of provincial Ministries of Education revealed a wide variation in practices, with prices varying both between provinces and between school boards within provinces. Some school boards will offer high school credits, equivalency exams (called General Educational Development or GED) and preparation for these exams through their adult education programs. For the most part, school boards will charge minimal fees for this. Community colleges also offer high school

equivalency programs but the costs do not appear to be very high (Exhibit 5).

Post-Secondary Costs

Post secondary costs vary considerably depending on the institution and the course of study. Many schools boards will offer continuing education programs for under \$100 a term, but these tend to be more general interest courses as opposed to job-related courses.

Chart 3
Ratio of University Grants/Student Fees (Left Scale) and Part Time University Enrolment (Thousands, Right Scale)



Source: Statistics Canada

Of greater concern to this paper are tuition fees and other costs at community colleges and universities, particularly for part time studies. Part-time courses and materials tend to be priced in line with full-time studies. The trend has been for post-secondary tuition to more closely match the cost of providing education to the student, as indicated by the growing importance of tuition fees to post-secondary funding. The early 1990's, in particular, were a period of rapid growth in post-secondary student fees. Between 1990 and 1995, real tuition costs increased by about 62 per cent.²⁷ Tuition increases are most likely to affect lifelong learners because many of these learners are part-time students. Tuition accounts for a *proportionately* greater share of their costs, primarily because they

are not forgoing earnings to pursue this education.²⁸ This partly explains the declines in part-time university enrolments (Chart 3).

Today, university tuition for part-time learning ranges between \$300 to \$500 per half term course and double for full credits.²⁹ Usually there is a maximum term tuition for people enrolled full-time or in continuing education. Community college courses are somewhat cheaper, a typical course costing from \$ 150 to \$300. In addition, books for a full program may cost upwards of \$1000 and ancillary fees up to \$200 annually. Furthermore, professional associations often require a registration fee before awarding credentials.

Naturally, the total cost of completing a credential will vary on the existing level of education and outstanding requirements. Consider, for instance, someone taking a human resources certificate program in Ontario. This program requires 10 courses (four compulsory and six electives). The direct course costs would be about \$2000 and books, materials and ancillary fees may cost another \$500.

Finance and the Adult Education and Training Survey

There is fairly limited evidence as to how millions of Canadians finance their continuing education. Even for full-time, youth students, there is relatively little evidence, but that which is available suggests that savings and family resources play a very large part. At one Ontario university, it was found that students' own earnings and savings paid for approximately 35 per cent of their costs. Parents contributed a quarter of the costs, a further quarter was provided through student loans and the remainder came from other sources.³⁰

Table 3
Annual Income Level and Nature of Support, Canada, 1998

	Job Related Employer-Sponsored Participants	Job-Related Employee Paid Participants
Under \$ 15,000	272,287	519,772
\$ 15,000 to \$ 29,999	592,876	246,451
\$ 30,000 to \$ 59,999	1,502,886	238,272
\$ 60,000 or more	566,369	47,360

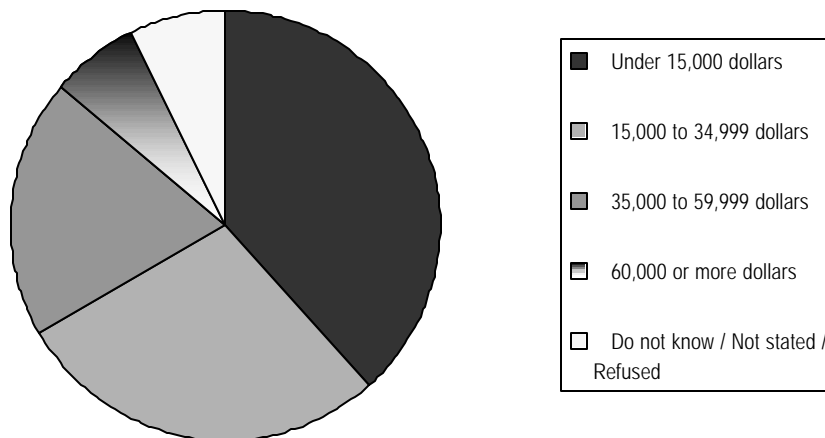
Source: Statistics Canada, Custom Run from 1998 Adult Education and Training Survey

The Adult Education and Training Survey (AETS), provides some data pertaining to financing adult education and training. Employers sponsor

most job-related training (Table 3). But it is interesting to note that the rate of employer-sponsored training goes up steadily with income and that lower income people are more likely to sponsor their own training. The greatest numbers of people who are supported by employers make over \$30 thousand per year, whereas employers and individuals are about equally responsible for financing the continuing education of those earning under \$30 thousand annually.

The AETS also gives an idea as to the extent to which money was a constraint to satisfying job-related training needs. Over 600 thousand adults reported that money was a constraint to satisfying their job-related training needs. Over 350 thousand of these people were not presently involved in education and training activities. Unsurprisingly, people earning lower incomes were more likely to cite money as a barrier to their pursuing further education and training (Chart 3). Moreover, about half of those who cited money as a barrier had some post-secondary education but had not attained a university degree. These people were also most likely to be between the ages of 25 and 44.

Chart 3
Adult Population Who Reported Unsatisfied Training Needs and For Whom Money Was a Constraint,
Annual Income, Canada, 1998



Source: Statistics Canada, Custom Run from 1998 Adult Education and Training Survey

Current Support for Lifelong Learning

Canada is in the midst of making a number of changes to the financing of learning. As post-secondary student costs have increased, there has been a renewed emphasis on improving the affordability of post-secondary education to ensure access. By design or effect, most of the support for post-secondary education and training is targeted toward young Canadians in full-time programs of study.

Table 4
Human Resource Development Canada Programs Education, Planned 1998/99

Program	Millions of Dollars	Target Group
Canada Student Loans	856.4	Full time and some part time students
<i>Interest Subsidy and Relief Portion Canada Student Loans *</i>	220	Full time and some part time students
Canada Education Saving Grant	150	Children
Canada Study Grants/Special Opportunity Grants	147.7	Disadvantaged groups

Source: Human Resources Development Canada, 1998-99 Estimates.

Note: * Authors estimates based on previously published data.

Table 5
Cost Estimates of Main Federal Tax Expenditure Programs for Education, Millions of Dollars

	1994	1995	1996	1997	1998	1999	2000	2001
Tuition Fee Credit	185	195	210	265	295	315	340	365
Education Credit	43	44	55	92	190	195	195	195
Carry Forward of Education and Tuition Fee Credits	0	0	0	0	10	25	40	50
Student Loan Interest Credit	0	0	0	0	120	135	150	160
Registered Education Savings Plan	na	na	35	32	44	78	125	185
Exemption on First \$500 of Scholarships etc.	6	6	6	6	6	6	6	6
Withdrawals from RRSP's to Support Lifelong Learning*	0	0	0	0	0	na	na	na

* Note: estimated to be \$40 million when mature

Source: Department of Finance <http://www.fin.gc.ca/taxexp/taxexp2e.html#Table 1>

Tables 4 and 5 review some of the main federal mechanisms for targeting support to the student. The lynchpin of the Canadian financing system for students the Canada Student Loans (CSL) program, a program that allows students to amortize the cost of their education and that provides interest relief while enrolled in post-secondary education. This program is administered in co-operation with the provinces (with the exception of Quebec and the Northwest Territories) and provinces will often have their

own programs to augment CSL funding. Eligibility is subject to a means test.

Although the Canada Student Loans are available to part-time students, they are much less likely to use this vehicle than full-time students. Although part time enrolments are about half those of full-time enrolments, the number of part-time students with Canada student loans is less than a tenth of that of full-time students.³¹ This is likely attributable to the means test of the program, as part-time students may have other earnings and assets to draw upon.³² Also, part time courses are paid for in smaller segments than full time course but often over a longer time period. Part timers are also more likely to live at home while they attend their courses.

Special Opportunity Grants came into effect in 1994, partly to address the needs of part-time students with limited financial resources. However, this fund was also used to support women in certain fields of Ph.D. studies and students with permanent disabilities. The program was subsequently turned into the Canada Study Grant program. In addition to the previous features of the program, the new program also assists those students with dependent children and, with a higher level of funding, can be said to be a contribution to lifelong learning for this target group.

The 1998 Federal budget introduced major changes to saving for education, very much in keeping with the learning account approach. Registered Education Savings Plan's (RESP's) had already been established in 1994 as a vehicle for parents to save for children's education by sheltering investment income and then transferring the income into the name of a child (where it would be taxed at a lower rate). The 1998 budget increased the limits for RESP contributions but, more importantly, introduced a grant top-up related to contributions. The Canada Education Savings Grant (CESG) adds 20 per cent to the first \$2000 in contributions, for an annual grant of \$400 up to a maximum of \$7200. These programs are targeted toward dependants under the age of 17.

The 1998 federal budget also endowed a Millennium Scholarship Foundation that will provide scholarships to some 100 thousand students annually beginning in 2000. These scholarships will be subject to means tests and be targeted toward full-time young learners.

Other forms of support operate through the tax system, in the shape of tax credits for education. The largest of these is the tuition tax credit that provides a 17-per-cent tax credit on tuition when this exceeds \$100. The

1997 budget extended the credit to mandatory ancillary fees. In addition, students who are enrolled at prescribed educational institutions on a full-time basis are entitled to claim a tax credit of 17 per cent of an education amount. The amount is now \$200 for every month in full time attendance.

These tax credits were not targeted at lifelong learning. However, an improvement came in the 1998 budget that extended the education tax credit to part-time students. Students enrolled at an educational institution in Canada in an prescribed program lasting at least three consecutive weeks, and involving a minimum of 12 hours of courses each month, are eligible. For each qualifying month, the education amount will be \$60 per month, to which the 17-per-cent credit will be applied. The budget estimated that the cost of extending the education tax credit to part time learners would be \$90 million annually.

Another measure from the 1998 budget should also support lifelong learning. This measure allows individuals to make tax-free withdrawals from their RRSP's to fund lifelong learning. The rules governing these withdrawals are similar to those for the Home Buyers Plan of 1992, which require that the individual pay back withdrawals within a limited time period to preserve the tax sheltering features of the original RRSP. The Department of Finance estimates that this measure will cost the treasury about \$40 million when mature.

Summary

Canada has been through a cycle of reducing per capita funding for post secondary education, increasing tuition to compensate for this and now putting funding back into the system through student support. Canada now has a lifelong learning environment with the following characteristics:

- ◆ *Continues to be heavily funded through government grants targeted toward public institutions.* These institutions are relatively high cost providers and have incentives to focus on full-time learners as opposed to part-time learners;
- ◆ *Raises more resources from students through fees.* This has a disproportionate effect on part time students because student fees account for a greater share of their total costs to continue education;
- ◆ *New student-centred assistance is primarily targeted toward full-time students.* This is effectively youth enrolment as about two-thirds of post secondary enrolment is between the ages of 19 and 24. Given the importance of socio-economic factors in determining full time post-secondary educational choices, this form of assistance may only have a limited impact on plans to go to post-secondary school;

- ◆ *Exhibits declining demand for part time post-secondary enrolment, since the early 1990's. Also, the demand for adult education and training has remain stagnant in the 1990's. Both these have occurred at time when demographics would suggest it should be increasing. Given that the baby boom generation has many productive years ahead of them, this may be leading to an under investment in Canada's human capital.*
- ◆ *Canada spends less on workplace training and training in conjunction with the workplace compared to major competitors;*
- ◆ *Saving incentives are targeted at children and there are few incentives for adults to save for lifelong learning.*

International Developments

It might be helpful to briefly review developments in other countries before exploring how Learning Accounts might make a contribution to funding lifelong learning in Canada. The recent experience of three countries (the United States of America, Australia and the United Kingdom) will be reviewed. Each country highlights an aspect of the case for learning accounts. In addition to several financing reforms, the United States is also interesting because of the many innovations that have occurred on the supply side of lifelong learning. Australia has just completed a major review of its higher learning system that has addressed some of the issues of lifelong learning. The United Kingdom is in the midst of implementing Individual Learning Accounts.

United States of America

As in other countries, the United States has been experimenting with reforms in the financing of higher learning at both the federal and state level. However, a distinguishing feature of the United States is the great expansion in the supply side of lifelong learning.

Financing innovations have taken place at both the federal and state levels. Several states have experimented with increasing tuition while improving student financing mechanisms. For instance, Minnesota has increased student grants in line with tuition increases. In the late 1980's, Michigan introduced a system of prepaid trusts to encourage saving for education. Parents would make a payment of about \$7000 to an education trust and in return are guaranteed tuition-free post-secondary education at state-funded colleges (subject to the child meeting admission guidelines).

At the federal level, the Taxpayer Relief Act of 1997 substantially expanded tax benefits for education.³³ Two new tax credits, a tax-exempt education savings account, and a new deduction for interest payments on education loans were introduced. Other provisions in the legislation extended the tax exclusion for employer education assistance, and exempted individual retirement account (IRA) withdrawals used for higher education from early withdrawal penalties.

The HOPE Scholarship Credit covers the first \$1,000 of qualified tuition and fees and 50% of the next \$1,000 that taxpayers pay for themselves, their spouse, or their dependents. An eligible student must be enrolled (or been accepted for enrollment) in a degree, certificate, or other program leading to a recognized educational credential and must carry at least one-half the normal full-time course load. This is targeted more at full time students than lifetime learners.

However, a second tax credit, the Lifetime Learning Credit is targeted more toward the lifetime learner. The credit is equal to 20% of the first \$5,000 of qualified tuition and fees (the first \$10,000 after 2002) that taxpayers pay for themselves, their spouse, or their dependents. The credit may be claimed any number of years for any level of post-secondary education; it can also apply to students who are enrolled in a single course to acquire or improve job skills and in this regard is targeted at the lifelong learner.

Education Individual Retirement Accounts (IRA's) were also introduced. These are effectively modelled on Canada's Registered Education Savings Plan's without the additional advantage of the grant component. The Education IRA's are targeted on young people but, on the whole, not as generous as Canada's RESP/CESG combination.

With some exceptions, qualifying expenses must be incurred at institutions eligible to participate in federal student aid programs under Title IV of the Higher Education Act. Virtually all public and private colleges and universities have this eligibility, as do many vocational and proprietary schools (for-profit trade and technical schools). In fact, the 1997 amendments to the Act made fewer distinctions between the for-profit institution and non-profit institutions, thereby expanding the market in higher learning.

The United States is the leader in the diversification of the supply side of lifelong learning and capital is pouring into the industry. In 1996, the venture capital markets raised in excess of \$160 million and initial public

offerings accounted for a further \$600 million in support of new education ventures.³⁴ Much of this capital is targeted at the market in lifelong learning and training. Overall, the US accounts for more than half of the \$US25 billion of training conducted annually worldwide.³⁵

Companies make money in this market by focusing on the adult learner, while stripping out the non-value-adding costs of traditional post-secondary institutions (e.g. research and property costs).³⁶ Of importance to this strategy is improving accessibility to the student. Companies such as Strayer Education and Apollo Group have focused on offering accredited learning in multiple locations and at times that are convenient to the adult learner. This reduces the opportunity costs to the student of lifelong learning.

Now these companies have moved their offerings on to the Internet, in a further effort to offer cost-effective learning at convenient times. The Apollo Group's University of Phoenix is now reaching over 60 thousand students, largely through the Internet. These new players are unbound from the high cost modes of traditional post-secondary delivery and this partially explains why rates of continuing education are on the rise in the US while they stagnate in Canada.

These developments are pertinent to any Canadian discussion of lifelong learning. Given the closeness of the United States, it is just a matter of time before US suppliers begin to seriously infiltrate the Canadian market in continuing education either through teaching centres or, more likely, through the Internet. The consequent driving down in the cost of delivering lifelong learning is every bit as important to issues of access as is the financing of education.

Australia

Australia has recently completed a major review of its higher learning in which the authors were clearly inspired by developments in the United States.³⁷ The "West Review", entitled its 1998 report "Learning for Life" to reflect its view that the main challenge facing higher education is to respond to the multiplicity of demands for lifelong learning. The Committee came to the conclusion that society must encourage more post-secondary education but that the provision of higher education must gradually move away from central planning.

The West Review identified three thrusts in mapping the way forward:

1. a student-centred funding framework that would increase the choices available to both students and providers of higher education;

2. a separate research funding framework that would respond to national needs;
3. a range of measures to re-engineer the regulatory framework and facilitate the structural change to allow the supply side of the industry to meet demands for lifelong learning.

The recommendations around a student-centred funding framework would see a gradual move away from funding student places indirectly through institutions toward channelling funding to the institution through the student. Eventually, the student funding would be extended to those students choosing to attend other post-secondary institutions other than state colleges and universities. The final stage of this reform would see entitlements extended to all school leavers and mature students who are seeking access to post-secondary education and training for the first time.

The Australian Department of Education, Training and Youth Affairs was further encouraged to be proactive in approving courses offered by new suppliers to the education and training market, including international providers. Finally, an income-contingent loan scheme was recommended to help finance education.

The most interesting thing about the Australian review is its emphasis on student-centred funding. In particular, the notion that all citizens should have entitlement to fund post-secondary education and training could have very significant implications for the nature of continuing education. For instance, it would treat post-secondary training more on a par with degree studies. Effectively there would be an equalization of the entitlement to all citizens with the market playing a greater role in the differentiation of fees between various institutions and types of degrees. The difference between the entitlement and the student fees would partly be addressed through income contingent loans. They calculate that public share of higher education costs would not increase under this system but that some institutions would raise tuition fees and that this would be absorbed through the individual's own resources, scholarships and loans.

The Commonwealth government and the Australian states are still considering the study prior to announcing reforms.

The United Kingdom

The United Kingdom has gone one better than Australia by moving expeditiously toward a system of Individual Learning Accounts.

The issue of funding lifelong learning was first raised, in a government Green Paper entitled *The Learning Age*, in February 1998. The focus of the Green Paper was post-16 studies, particularly for those who did not immediately proceed to post-secondary studies at a polytechnic or university. This group has been a going concern in the United Kingdom for a number of years and considerable effort has been put into improving the school to work transition system for them. Consequently there has been a considerable expansion in vocational training and the emergence of new suppliers. Taking this as its background, the Green paper proposed to establish Individual Learning Accounts (ILA's) as a way to encourage more student-centred funding for this training.

The March 1999 budget and a July 1999 White Paper provided further details on the nature of the Individual Learning Accounts. The government is in the process of unveiling a broader framework for the functioning of these accounts, which will be unveiled in 2000. In the meantime, the budget made the following provisions for individual learning accounts:

- ◆ for the first million starter accounts, the government will contribute £150 for each individual in the first year of the account, subject to a £25 contribution from the individual;
- ◆ a 20% discount off the cost of eligible courses on spending up to £500 in each year (this applies from the second year of an account, if the individual has a starter account);
- ◆ an 80% discount off the cost of certain other courses, including computer literacy training;
- ◆ employees will not be subject to tax or National Insurance Contributions on any employer's contribution to a learning account for eligible learning, as long as the employer extends the facility to the lowest paid employees in the company on a similar basis;
- ◆ employer contributions to learning accounts will be tax deductible.

The longer-term plan is to firm up details of account provision and parameters. The financial services sector is gearing up to become more involved in competing for learning account deposits. Although anyone can establish an ILA, the government intends to limit the subsidy to those who are in work but are not in full-time education.

The UK scheme incorporates an entitlement for continuous learning that is related to the individual's commitment to save. This is not unlike the relationships between Canada Education Savings Grants and Registered Education Savings Plans, although it is focused on the post-16, part-time learner. Also there is a relationship between the individual commitment

to learn and employer commitments to training. This recognizes the overlaps between portable education that is of interest to the individual and job-specific education that is of interest to the employer.

Main Trends from the International Experience

A review of the international experience reveals several trends:

- ◆ a renewed focus on the lifelong learner which is usually defined as the post-16 learner who has left the initial cycle of education;
- ◆ a recognition that lifetime learning is a complex system that involves the individual, government, educators and employers;
- ◆ a recognition that learning entitlements should be extended to lifetime learners;
- ◆ an encouragement of supply side innovations that improve flexibility and lower per student costs, while maintaining quality;
- ◆ a recognition of the importance of saving as a mechanism for engaging lifetime learners into a process of goal setting and planning for lifetime learning.

Moving Toward a Lifelong Learning Account

Strategic Considerations

If Canada genuinely wishes to encourage lifetime learning, it needs to change the way it funds higher learning. But if this change is to be affected, the federal and provincial governments will have to work together and carefully put the mechanisms in place to facilitate change.

The strategy should continue to encourage high rates of secondary school completion through existing arrangements. Although the effectiveness of Canada's current system of secondary education may be questioned, from the student's perspective, there is not a major financing issue to be addressed at this time.

Post-secondary education is another matter. That portion of post-secondary funding that supports teaching should be parcelled off from the research component. Then the funding for teaching should be gradually transferred away from institutions toward students in the form of a lifetime entitlement to post-secondary education.

Predictability of funding has been a major principle of Canada's institution-based funding system. Obviously, a move to a student-centred funding model might have significant implications for the predictability of funding. Moreover, Canadian universities and colleges are generally not as well endowed as, for instance, their U.S counterparts. As such, mechanisms may need to be put in place to allow Canadian universities and colleges to borrow to fund their transformation.

Creating a Student-Centred Funding Model

The student-centred funding model would include a number of components:

- ◆ a lifetime post-secondary entitlement roughly equal to three years of post secondary study and geared to the public returns to higher education. Based on current subsidies, this would amount to about \$30 thousand per high school graduate;
- ◆ means-tested scholarship programs to address equity concerns (Millennium Scholarships and provincial means-tested scholarship programs);
- ◆ a student loan program to amortize student-funded costs, (Canada Student Loans).

The main change from the existing system is the creation of the lifetime learning entitlement that effectively transfers institutional grants to students. Much of this will eventually find its way to post-secondary institutions for full time study, as it does today. However, for those who wish to pursue other courses of post-secondary lifelong learning, the entitlement will treat them equitably with full-time students at colleges and universities.

Given that Canada is already a world leader in spending at the post-secondary level, there is little reason to increase the total amount of public funding for post-secondary education. At around 1.7 per cent of GDP, government grants to post-secondary institutions in Canada are well above the OECD average of 1.0 per cent of GDP.³⁸ The student-centred funding model should improve the overall efficiency of Canada's market in higher learning.

Stages of Implementation

Given the joint role of the federal government and provinces in higher education, the movement to a student-centred funding model would require a high degree of co-operation between these levels of government. The following is a possible timetable for managing the change to a student-centred funding model.

Getting Ready for Change (1 to 2 years)

- ◆ federal and provincial governments jointly declare the intention to move toward an student-centred funding model;
- ◆ governments determine the mix of funding between the basic entitlement, means-tested scholarships and student loans, taking into consideration public versus private benefits and equity considerations;
- ◆ provincial systems of funding post-secondary institutions are harmonized and moved to an enrolment basis, (where this does not already exist);
- ◆ a new research funding framework is put in place and is parcelled off from the funding of teaching.

Putting the Mechanisms in Place (2 to 3 years)

- ◆ *Supply side*
 - ◆ Establish loan fund to facilitate structural change in the industry;
 - ◆ Establish partnerships to improve public/private systems of accreditation of learning;
 - ◆ Revise fee structures based on segmentation of learning market;

- ◆ Increase the number of prescribed foreign institutions that are allowed access to student funding, on a reciprocal basis.
- ◆ *Demand side*
 - ◆ Build on RESP/CESG mechanism, eventually merging it into the *Canada Lifelong Learning Account*. This will be a joint federal/provincial mechanism for encouraging saving for learning as well as a mechanism for receiving the lifelong learning entitlement;
 - ◆ Fold current tax expenditure support into this account;
 - ◆ Inform students of changes to system and work with secondary school counsellors and industry associations to develop lifelong learning paths based on new funding system;
 - ◆ Establish consumer protection and information services.

Roll-Out the Student-Centred Model (1 year)

- ◆ provide an entitlement to all high school graduates and mature age students who are seeking access to post-secondary education and training for the first time;
- ◆ allow the entitlement to be spent at any prescribed institution.

Maintaining the Savings Mechanism

Ideally, the system should continue to encourage savings through RESP/CESG and these should be extended to lifetime learners. Savings are an especially important mechanism for learning because access to higher learning involves goal setting and dedication. A major advantage of publicly supported savings programs has been the so-called “recognition effect”. Public saving programs may have the effect of inducing saving and long-term goal setting.³⁹ Certainly Registered Retirement Savings Plans have raised awareness of saving for retirement and presumably the federal government holds that Registered Education Savings Plans do the same for post-secondary education.

In the proposed scheme, the RESP/CESG system could simply be converted to a *Canada Lifetime Learning Account*. The RESP/CESG program could continue to encourage saving for the student-supported portion of higher education costs. The grants issued through this system would count against the lifetime entitlement, but the interest income would be sheltered from taxation.

In the final stage, all high school graduates and mature students would receive a certificate indicating the amount of lifetime learning entitlement that had not already been released through the RESP/CESG system. This

would be released to the student through their lifetime as they chose courses at prescribed institutions.

Some may question why we would want to extend savings into the area of lifelong learning. Yet, under the current system, many Canadians may actually be better off saving for lifelong learning than saving for retirement. Given the clawbacks in Canada's retirement income system, the income security of some Canadians would be better served by them saving for learning than saving for retirement through RRSP's.⁴⁰ An optimal publicly-supported savings policy, therefore, should encourage Canadians to improve their lifetime earnings through education and then save for retirement from their enhanced earnings.

A Way Forward

This vision for supporting lifetime learning and may initially appear a bit futuristic. Yet it is broadly consistent with the recommendations being made for Australia, a federal country with a similar system of higher education to Canada. Moreover, the federal government has taken major strides in the direction of a student-centred funding model. It already has an entitlement-based saving program (RESP and CESG), a means-tested entitlement program (Millennium Scholarships) and a student loan program with facilities for debt service relief (Canada Student Loans).

There are two main outstanding issues. First, the existing federal programs are, for the most part, not targeted at the lifelong learner. The implicit assumption is that young full time students are the ones in greatest need and full time studies are where the social returns are maximized. These assumptions should be questioned in light of the emerging need to continually upgrade skills. Canadians need more flexible arrangements for their post-secondary learning.

Second, provinces effectively have the primary responsibility for the funding of lifelong learning and its delivery. Although the federal government has a well-established role in funding post-secondary education, Canada is unlikely to move to a successful student-centred funding model unless provinces are on board. Certainly the idea of a post-secondary entitlement of \$30 thousand is unworkable without the provinces agreeing. Moreover, provinces subsidize and regulate the supply side of learning. Any federal initiative to increase student-centred funding could easily be undone by tuition increases at the institution level. To prevent this type of "rent capture", provinces need to use their regulatory powers to ensure competitive markets in lifetime learning.

For Further Research

Further research would help to specify some aspects of the proposed system and determine its broader impact on governments' fiscal positions and the overall economy. In particular, there is relatively little research on the returns to adult continuing education and training. This type of research would allow for some calculation of the social and private returns that may help determine the appropriate levels of entitlement. It would also allow for calculating extent to which governments may recoup some of their investment in higher tax revenues.

Research on supply side innovations that drive down per student costs of learning would also help determine the cost/benefit of the proposed program. Another line of inquiry might explore how equity could be served in this system, through means-tested scholarships. Finally, the complementarities between individually funded lifetime learning and employer-sponsored lifetime learning could be investigated.

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Notes

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- ³ Commonwealth of Australia, Department of Education, Training and Youth Affairs, "Final Report of the Review of Higher Education Financing and Policy (The West Review)", 1998.
- ⁴ Conference Board of Canada, *Performance and Potential 1997* (Ottawa: Conference Board of Canada) 1997, p. 59.
- ⁵ Human Resources Development Canada and Statistics Canada. *After High School, The First Years: First Report of the School-Leavers Follow-Up Survey*, 1995. Cat. No. LM-419-09-96. Autumn 1996. Table 7, p. 9.
- ⁶ Conference Board of Canada, *Performance and Potential 1997* (Ottawa: Conference Board of Canada) 1997, p. 59.
- ⁷ Human Resources Development Canada, *High School May Not Be Enough: An Analysis of Results From the School-Leavers Follow-Up Survey*, 1995. Cat. No. SP-105-05-98E, 1998. Chart 2-1.
- ⁸ Statistics Canada, *Labour Force Annual Averages, 1997*. Cat. No. 71-220, Table 5.
- ⁹ Drewes, Torben and Herb O'Heron, "Part Time Enrolments: Where Have All the Students Gone?" *Research File*, Vol 3., No. 2, May 1999. p. 1.
- ¹⁰ Statistics Canada. *Education in Canada, 1998*. Cat. 81-229, June 1999. p. 32.
- ¹¹ R. Morissette, J. Myles, and G. Picot (1994) " Inequality and the Distribution of Working Time in Canada." *Canadian Business Economics*, Vol 2, no. 3, (Spring 1994), pp.3-16. See also: R. Morissette, *Why Has Inequality in Weekly Earnings Increased in Canada?* Statistics Canada Analytical Paper No. 80. July 1995.
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- ¹³ Statistics Canada, *Adult Education and Training in Canada: Report of the 1994 Adult Education and Training Survey*. Statistics Canada Catalogue 81-583, 1995, p. 5.
- ¹⁴ Don Little, "Financing Universities: Why Are Students Paying More" *Education Quarterly Review*, Statistics Canada Cat. No. 81-003 Vol 4, No. 2, p 23.
- ¹⁵ Statistics Canada, *Adult Education and Training in Canada: Report of the 1994 Adult Education and Training Survey*. Statistics Canada Catalogue 81-583, 1995. Table 2.15.
- ¹⁶ OECD. *Education at a Glance*. (Paris: OECD 1996), p. 50.
- ¹⁷ The analysis in this section is based on a custom run of data from the 1998 Adult Education and Training Survey. The AETS is a household survey attached to Statistics Canada Labour Force Survey.
- ¹⁸ Organization For Economic Co-operation and Development (OECD). *Lifelong Learning for All*. (Paris: OECD) 1996. p. 230.
- ¹⁹ Global Alliance Limited. "Australian Higher Education in the Era of Mass Customization". Paper prepared for the Review of Australian Higher Education Policy. August 1997.
- ²⁰ These postings are from September 29, 1999 to The Distance Education Online Symposium DEOS-L@LISTS.PSU.EDU. The first three paragraphs were posted by Stephen Downes of the University of Alberta whereas the last paragraph was posted by Dennis Roberts.
- ²¹ Organization For Economic Co-operation and Development (OECD). *Lifelong Learning for All*. (Paris: OECD 1996), Chart 8-2, p. 233.
- ²² For an example of an approach that does take taxes into account see: Heckman, James J., Lance Lockner and Christopher Taber. " General Equilibrium Cost Benefit Analysis of Education and Tax Policies" National Bureau of Economic Research Working Paper 6881, January 1999.
- ²³ Human Resources Development Canada and Statistics Canada. *High School May Not Be Enough: An Analysis of Results from the School Leavers Follow-Up Survey*, 1995. Cat. No. SP-105-05-98E, 1998. Charts 2-5 and 2-6.
- ²⁴ David A. A., Stager, *Focus on Fees: Alternative Policies for University Tuition Fees* (Toronto: Council of Ontario Universities, 1989), Chapter 5.
- ²⁵ Heckman, Lockner and Taber, p. 8.
- ²⁶ Statistics Canada. *Education in Canada, 1998*. Statistics Canada Cat. 81-229, June 1999.
- ²⁷ Don, Little, "Financing Universities: Why Are Students Paying More" *Education Quarterly Review*, Statistics Canada Cat. No. 81-003 Vol 4, No. 2, p. 13..

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- ²⁸ Drewes, Torben and Herb O'Heron, "Part Time Enrolments: Where Have All the Students Gone?" *Research File*, Vol 3., No. 2, May 1999.
- ²⁹ These costs are based on a brief review of colleges and universities websites
- ³⁰ Cited in: Little, Don, "Financing Universities: Why Are Students Paying More" *Education Quarterly Review*, Statistics Canada Cat. No. 81-003 Vol 4, No. 2, p. 19.
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- ³³ Bob Lyke, "Tax Benefits for Education in the Taxpayer Relief Act of 1997" Congressional Research Service Report to the USA Congress, No. 97-EPW, September 1997.
- ³⁴ Global Alliance Limited, "Australian Higher Education in the Era of Mass Customization". Paper Prepared for the Review of Australian Higher Education Policy. August 1997. Figures 28 and 30.
- ³⁵ These are projected numbers for the year 2000 from: Gerald Odening. "What Has Changed? Compelling Reasons to Invest in the Education-For-Profit Industry". Presentation to the Financial Post's Canadian Education Industry Summit, October 7, 1998.
- ³⁶ Global Alliance Limited, "Australian Higher Education", p.70-71.
- ³⁷ Review of Higher Education Financing and Policy (The West Review, Australia). "Learning for Life: Review of Higher Education Financing and Policy" Discussion Paper". April 1998.
- ³⁸ Don, Little, "Financing Universities: Why Are Students Paying More" *Education Quarterly Review*, Statistics Canada Cat. No. 81-003 Vol 4, No. 2, p. 16.
- ³⁹ Cagan has suggested that there was a "recognition effect" to mandatory participation in pension plans. See: Phillip Cagan, *The Effect of Pension Plans on Aggregate Saving* (New York: National Bureau of Economic Research, 1965). Many of the social policy arguments in favour of saving can be found in: Michael Sherraden, *Assets and the Poor: A New American Welfare Policy* (Armonk: M.E. Sharpe Inc., 1991). See also: Michael Grant, *An Asset-Based Social Policy For Canada?* Discussion Paper prepared for the Canadian Bankers Association and the Self Employment Development Initiatives (SEDI),
- ⁴⁰ See: Richard Shillington, *The Dark Side of Targeting: Retirement Saving for Low Income Canadians* (Toronto: CD Howe Institute, 1999).