



# Fiscal Consequences of Higher Spending on K-12 Public Schools in Canada

by Hugh MacIntyre and Joel Emes

## SUMMARY

■ Spending decisions by governments have consequences beyond just the direct effects of the new or expanded spending. Additional spending today requires either higher taxes today or, when financed by deficits (i.e., borrowing), higher taxes in the future. At the provincial level, a lack of spending restraint on elementary and secondary (K-12) education has a disproportionate effect on the government's finances due to the size of education spending compared to most other spending.

■ For Canada as a whole, the increase in per-student spending in K-12 public schools after accounting for the effects of inflation (price changes) was 25.8% between 2004/05 and 2013/14. Over the same period, the province with the highest per-student spending in-

crease in K-12 public schools was Saskatchewan (39.0%) while British Columbia recorded the lowest increase (18.3%).

■ Had spending been restrained so that per-student public school spending had been held constant from 2004/05 to 2013/14, education spending on K-12 public schools in Canada would have been 20.3% lower—\$49.8 billion instead of the \$62.6 billion that was actually spent.

■ Constant per-student public school spending would also have meant that, in 2013/14, Alberta and Prince Edward Island would have recorded budget surpluses instead of deficits, Quebec would have essentially balanced its budget two years earlier, and the deficits or surpluses of other provinces would have been substantially reduced or increased respectively.

# Fiscal Consequences of Higher Spending on K-12 Public Schools

## Introduction

Spending decisions by governments have consequences beyond just the direct effects of the new or expanded spending. Additional spending today requires either higher taxes today or, when financed by deficits (i.e., borrowing), higher taxes in the future. At the provincial level, the two single largest spending categories are health care, and elementary and secondary (K-12) education. Increases in either of these spending categories will disproportionately affect the government's finances.

For instance, a lack of restraint in spending increases for K-12 education in public schools can contribute to persistent budget deficits as spending outstrips the government's available resources. This possibility is increasingly becoming a reality now that deficit spending has become the new normal in Canada and governments are regularly spending beyond the

revenues that they collect. Every year since 2009/10, virtually all provincial governments have recorded budget deficits, with balanced budgets being the exception rather than the rule. While poor economic conditions can lead to lower revenues and thus to budget deficits, often government spending decisions are what lead to persistent multi-year budget deficits.

This paper measures the impact that increases in spending on education in public schools—an area of spending that has seen considerable growth in recent years—has had on each provincial government's deficit (or surplus). The paper is divided into three sections. The first provides an overview of the fiscal balances of the provinces from 2007/08 to 2016/17, the current fiscal period just coming to an end. The second section provides information on the extent of the increase in spending on public schools (and draws upon data and analysis in Clemens, Emes, and Van Pelt, 2016). The third

**Table 1: Provincial government deficit/surplus, 2007/08 to 2016/17**

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
BC	2,302	91	(1,812)	(246)	(1,841)	(1,163)	347	1,692	730	264
AB	2,447	(931)	(476)	(2,262)	(114)	(3,099)	(302)	1,115	(6,442)	(10,421)
SK	1,873	2,968	(409)	(13)	(105)	37	589	62	(1,520)	(434)
MB	558	449	(185)	(181)	(1,001)	(560)	(522)	(430)	(846)	(911)
ON	600	(6,409)	(19,262)	(14,011)	(12,969)	(9,220)	(10,453)	(10,315)	(5,029)	(4,300)
QC	0	0	(3,174)	(3,150)	(2,628)	(1,600)	(2,824)	(725)	0	0
NB	241	(152)	(696)	(617)	(245)	(508)	(600)	(361)	(261)	(347)
NS	419	26	(269)	585	(259)	(304)	(677)	(144)	(11)	127
PE	(4)	(31)	(74)	(63)	(84)	(80)	(46)	(20)	(28)	(10)
NL	1,421	2,350	(33)	594	974	(195)	(389)	(986)	(2,200)	(1,830)

**Notes:**

The 2016/17 figures are projections as of June 2, 2016.

In some cases the 2015/16 figures from the federal government's Fiscal Reference Tables are preliminary.

Sources: TD Economics, 2016, Canada, Department of Finance, 2016.

section measures the impact of each government's decision to increase spending above what is needed to account for changes in public school enrolment and inflation.

## State of fiscal balance in the provinces

Before measuring the consequences to government finances of spending on K-12 education in public schools, it is useful to have a sense of the current state of provincial finances. In particular, it is useful to identify which provinces have had budget deficits and which have had surpluses over the last decade. The provinces with chronic deficits can least afford unrestrained spending on public schools. This first section provides information on the extent of chronic deficit spending by provincial governments.

Table 1 shows the fiscal balance of each provincial government from 2007/08 to the current fiscal year (2016/17). This last year of data is drawn from projections of the fiscal balance once the fiscal year comes to an end in March 2017. The numbers in black indicate a balanced budget or a surplus; the numbers in red indicate that the province was in deficit that year.

In the early to mid-2000s, it was relatively common for provincial governments to report budget surpluses (Canada, Department of Finance, 2016). In fact, in 2007/08, every province with the exception of Prince Edward Island either had a balanced budget or a surplus. But by the following year, the fiscal balance in most provinces had deteriorated and three more provinces fell into deficit. In 2009/10, provincial fiscal balances deteriorated even further: every province recorded a budget deficit. From then on, at least seven out of 10 provinces were in a deficit position every year. Some provinces, including Ontario, have been in deficit every year since 2008/09, meaning that there has been

nearly a decade of deficit spending in these provinces. In the current year (2016/17), the only provinces not projected to have a deficit are Nova Scotia, Quebec, and British Columbia.

For the purposes of this report, the 2013/14 year is notable because it is the last year of available data on education spending in public schools. In that year, only Saskatchewan and British Columbia had budget surpluses. The other eight provinces all had budget deficits. Overall, table 1 demonstrates that deficit spending has become a chronic problem for Canadian provinces.

## Growth in public school education spending

To measure the consequences of public school spending on government finances, it is important to first calculate the extent that spending has increased over the course of a decade. This section first provides data on how much K-12 education spending in public schools has increased from 2004/05 to 2013/14. It then measures the growth in public school spending adjusted for enrolment and inflation (see Clemens et al., 2016, for further discussion).

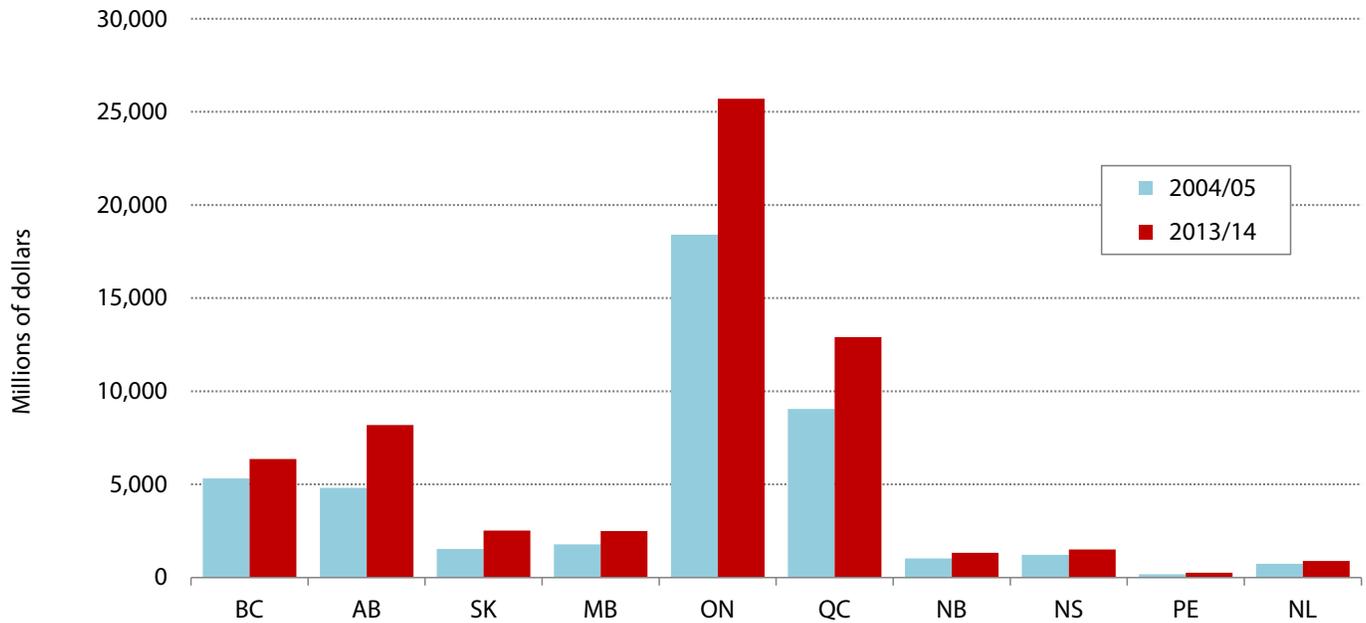
## Nominal public school education spending

This paper focuses on spending on education in public schools, as opposed to total government spending on education, which includes government spending on independent schools in some provinces.<sup>1</sup> The data come from Statistics Canada and include spending on capital related to public schools—particularly new school construction and renovations to existing schools—as well as contributions to school employee

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<sup>1</sup> Federal government spending on education in public schools is excluded.

Figure 1: Spending on Public Schools, 2004/05 and 2013/14



Source: Statistics Canada, 2016c.

pension plans.<sup>2</sup> The inclusion of these spending categories, which are often overlooked, is particularly important given their relative growth in recent years (Van Pelt et al., 2016).

Another important aspect of the currently available data from Statistics Canada is that they include a few small categories of revenue and spending that could be considered non-governmental, but which are extremely difficult to remove. Specifically, the data include spending and revenue under the category of “Fees & Other Private Sources.”<sup>3</sup> Fortunately, the items included in this category represent compara-

tively little revenue and spending relative to the entire envelope of spending on education in public schools. However, it is important to recognize that the measure relied on for this paper may not be exclusive of a small amount of private spending on education in public schools.

Drawing upon this data source, table 2 shows the change in spending on education in public schools for all of Canada over a 10-year period from 2004/05 to 2013/14, as well as the change in spending in each province. Figure 1 displays the data graphically. In 2004/05, Canadian spending on education in public schools amounted to \$44.3 billion.<sup>4</sup> By 2013/14, spend-

<sup>2</sup> For more information and discussion regarding the data, see Clemens et al. (2016).

<sup>3</sup> Fees & Other Private Sources includes rentals and leases, investment revenues, capital fund-sourced revenues, other fees, trust account revenues, inter-school transfers, and adjustments.

<sup>4</sup> Spending on education in public schools for all of Canada includes spending in the territories as well as the provinces.

**Table 2: Growth in Spending on Public Schools, 2004/05 to 2013/14**

	2004/05 (millions \$)	2013/14 (millions \$)	Nominal change (millions \$)	Percent change (%)
BC	5,315	6,366	1,051	19.8
AB	4,807	8,186	3,379	70.3
SK	1,532	2,525	993	64.8
MB	1,776	2,487	711	40.0
ON	18,402	25,703	7,301	39.7
QC	9,046	12,906	3,860	42.7
NB	1,024	1,326	302	29.5
NS	1,209	1,499	290	24.0
PE	173	250	77	44.5
NL	737	888	151	20.5
Canada	44,341	62,562	18,221	41.1

Source: Statistics Canada, 2016c.

ing on public schools had grown to \$62.6 billion, an increase of \$18.2 billion or 41.1%.

Every province experienced increases in spending on public schools. The largest increase in spending on public schools (70.3%) was in Alberta. Neighbouring British Columbia saw the smallest increase among the provinces (19.8%). Most provinces recorded an increase around or above 40%. Overall, over the course of the decade, there has been a substantial increase in nominal spending on education in public schools throughout the country.

### Adjusting for enrolment and inflation

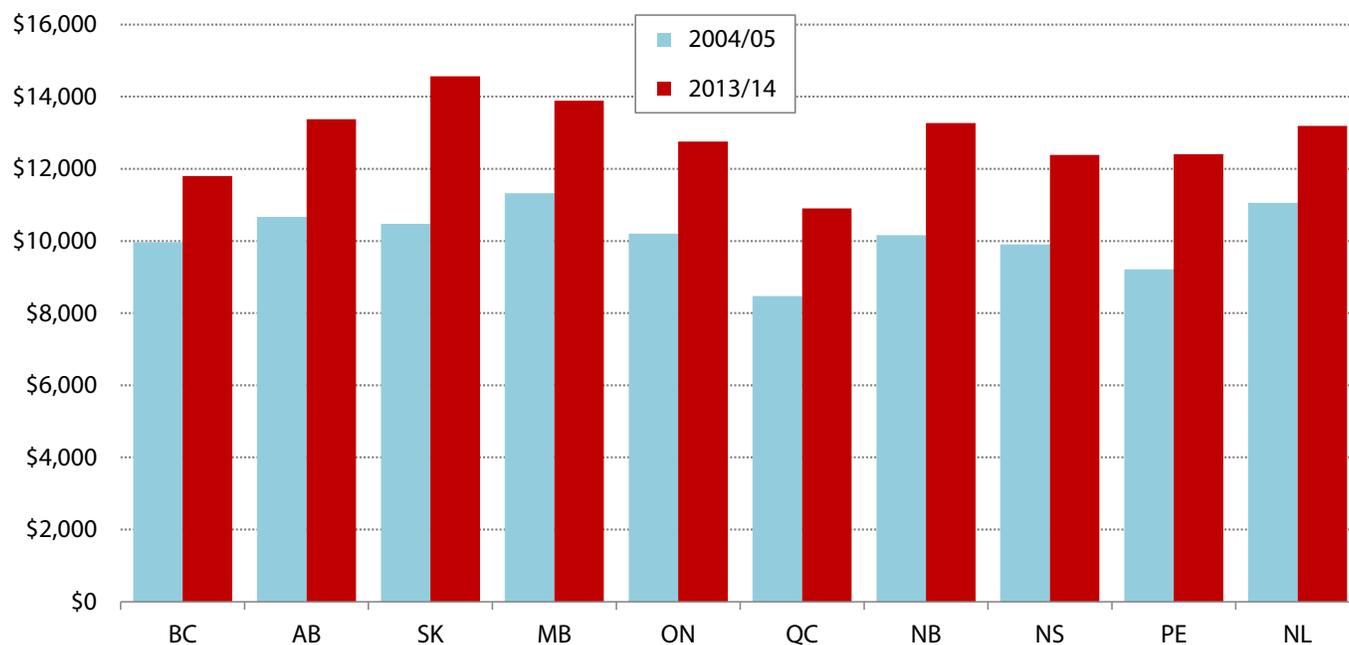
The nominal, unadjusted increase in aggregated public school education spending misses a critical component: enrolment (Van Pelt and Emes, 2015). Any analysis of education spending that ignores enrolment levels risks materially misrepresenting the reality of education spending.

Higher enrolment could reasonably be expected to increase costs without any changes to government policy since more students would generally require more resources to educate. Conversely, all else being equal, lower enrolment would be expected to lower some education costs.

Table 3 shows the number of students enrolled in public school in Canada and in each province in 2004/05 and 2013/14, while figure 2 displays the data graphically. Over the course of ten years, public school enrolment in Canada fell by 4.2%—from 5.3 million students to 5.0 million students.<sup>5</sup> Alberta is the only province where public school enrolment increased overall in

<sup>5</sup> The decline in public school enrolment over this period are generally due to a combination of slow growing or even shrinking school-age population (depending on province) and the transition of students to independent schools and homeschooling (Clemens et al., 2016).

Figure 2: Per-Student Spending in Public Schools, 2004/05 and 2013/14 (2014 dollars)



Sources: Statistics Canada, 2015, 2016a, 2016b, 2016c.

the period (11.1%).<sup>6</sup> The Atlantic provinces saw the largest drops in enrolment, with declines ranging from 10.1% (Prince Edward Island) to 16.8% (Nova Scotia). Outside of Atlantic Canada, the largest fall in enrolment was in British Columbia (9.5%). Enrolment in other provinces declined from 1.5% (Saskatchewan) to 5.1% (Ontario).<sup>7</sup> The fact that spending on education

<sup>6</sup> It's important to note, however, that Alberta's enrolment change is consistent with the rest of Canada when calculated as a share of the population. Specifically, enrolment-to-population fell by 10.3 percent in Alberta and by 12.9 percent in Canada as a whole.

<sup>7</sup> While the overall trend in public school enrolment is downward in most provinces from 2004/05 to 2013/14, there are differences in the enrolment change pattern between the provinces. For example, some provinces experienced both years of enrolment decline and years of growth within the period while other provinces experienced consistent declines. For details on enrolment in

in public schools has increased despite a drop in enrolment means that per-student spending has risen.

In addition to public school enrolment, the data also need to be adjusted for inflation to ensure that they accurately portray the real value of the monies spent on public schools over time. A certain level of spending increase is required to keep the effective level of spending the same. This is because inflation (increases in prices over time) erodes the value of money by making it more expensive to purchase goods and services, meaning more nominal dollars are required to purchase the same level of goods and services. A more precise measure of the educa-

each province over the entire period, see Clemens et al. (2016).

**Table 3: Change in Public School Enrolment, 2004/05 to 2013/14 (number of students)**

	2004/05 (thousands)	2013/14 (thousands)	Percent change (%)
BC	596	540	-9.5
AB	551	612	11.1
SK	176	173	-1.5
MB	184	179	-2.8
ON	2,124	2,015	-5.1
QC	1,233	1,184	-4.0
NB	117	100	-14.7
NS	145	121	-16.8
PE	22	20	-10.1
NL	79	67	-15.3
<b>Canada</b>	<b>5,253</b>	<b>5,034</b>	<b>-4.2</b>

Sources: Statistics Canada, 2015 and 2016b.

**Table 4: Growth in Per-Student Spending in Public Schools, 2004/05 to 2013/14 (2014 dollars)**

	2004/05 (\$)	2013/14 (\$)	Percent change (%)
BC	9,971	11,797	18.3
AB	10,669	13,378	25.4
SK	10,476	14,562	39.0
MB	11,322	13,887	22.7
ON	10,204	12,753	25.0
QC	8,468	10,904	28.8
NB	10,158	13,271	30.6
NS	9,901	12,382	25.1
PE	9,211	12,409	34.7
NL	11,060	13,190	19.3
<b>Canada</b>	<b>9,876</b>	<b>12,427</b>	<b>25.8</b>

Sources: Statistics Canada, 2015, 2016a, 2016b, 2016c.

tion spending in public schools would adjust for changes in enrolment and inflation.

To account for both changes public school enrolment and inflation, table 4 presents per-student public school spending in constant 2014 dollars from 2004/05 to 2013/14. The table includes both per-student spending in Canada and in each province. For Canada as a whole, inflation-adjusted, per-student public school spending increased by 25.8% from \$9,876 to \$12,427. This means that, in 2014 constant dollars, \$2,551 more was spent per public school student in 2013/14 than in 2004/05. Among the individual provinces, British Columbia experienced the lowest increase in per-student spending (18.3%), which still represents a significant increase. The largest increase took place in Saskatchewan (39.0%). Overall, all 10 provinces increased inflation-adjusted, per-student public school spending. This represents

an increase in resources that provincial governments have chosen to dedicate to public school education.

## The fiscal impact of public school education spending

The substantial growth in education spending in public schools has consequences for each government's wider financial circumstance. This section measures the impact on government finances that spending above what is needed to account for changes in public school enrolment and inflation has had. First, it measures the difference between actual spending and what spending would have been had it been kept constant with inflation-adjusted, per-student public school spending in 2004/05. Second, it compares the actual deficit or surplus of each province with what the budget balance

would have been had spending been restrained to keep in line with changes in school enrolment and inflation.

## Actual versus restrained public school education spending

One way to gain a sense of the magnitude of the increase in public school spending—and the resulting consequences for government finances—is to compare actual spending levels in 2013/14 with what spending would have been if per-student spending had remained constant. In other words, we compare actual spending levels with what spending on public school education would have been had it been adjusted solely to reflect changes in student enrolment and inflation. This alternative spending level is referred to here as “restrained spending.” The level of restrained public school spending is calculated from the inflation-adjusted, per-student spending in 2004/05.

Table 5 presents actual and restrained 2013/14 education spending in public schools for each province and for Canada as a whole (see also figure 3). The table also reports the difference between actual spending and what spending would have been if it had been restrained to 2004/05 per-student levels. Note that while the data is presented in aggregate, school enrolment is not being overlooked since the calculations take into account changes in enrolment.

Between 2004/05 and 2013/14, education spending in Canadian public schools increased by \$12.7 billion above what was necessary to account for enrolment and inflation. If per-student spending in public schools had remained constant over this period, education spending in public schools in 2013/14 would have been 20.3% lower. Saskatchewan recorded the biggest percentage difference between actual spending and spending restrained to the

**Table 5: Comparing Actual and Restrained Spending in Public Schools, 2013-14**

	Actual Spending (millions \$)	Restrained Spending (millions \$)	Difference (millions \$)	Percent difference (%)
BC	6,366	5,434	932	-14.6
AB	8,186	6,498	1,688	-20.6
SK	2,525	1,813	712	-28.2
MB	2,487	2,044	443	-17.8
ON	25,703	20,533	5,170	-20.1
QC	12,906	10,112	2,794	-21.6
NB	1,326	1,024	302	-22.8
NS	1,499	1,210	289	-19.3
PE	250	188	62	-24.8
NL	888	750	138	-15.5
Canada	62,562	49,838	12,724	-20.3

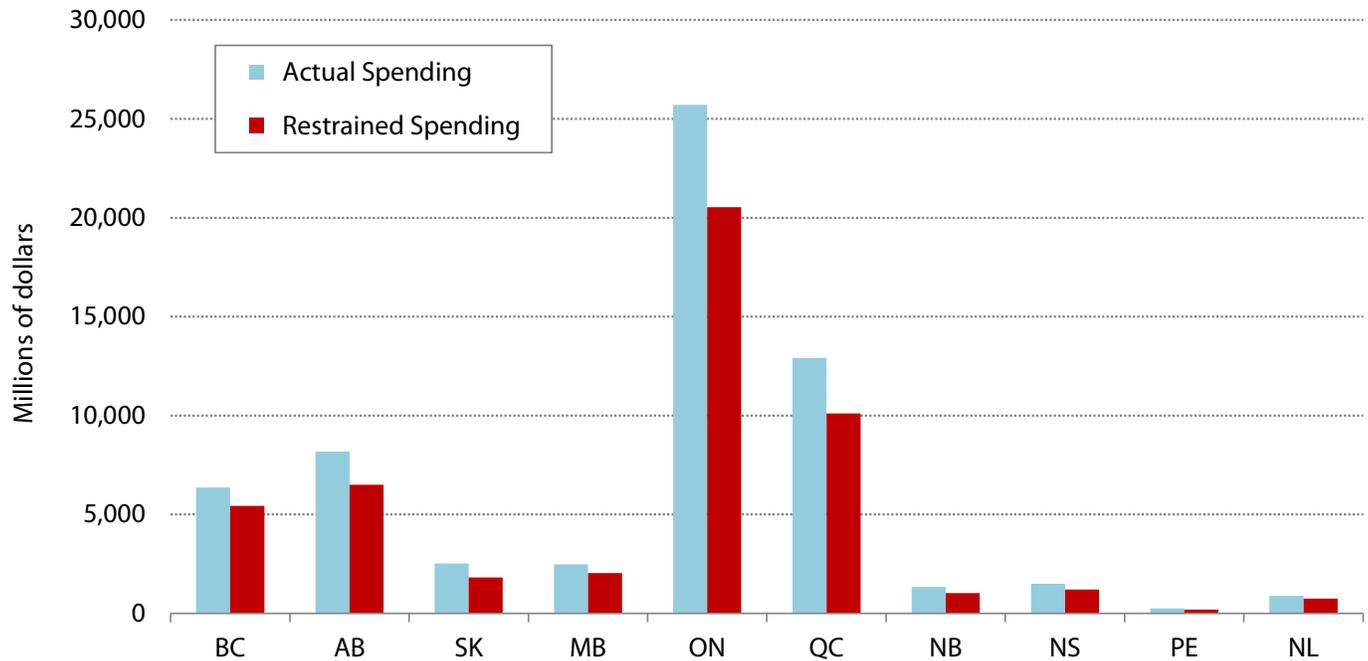
Sources: Statistics Canada, 2015, 2016a, 2016b, 2016c

2004/05 level of per-student spending—a difference of 28.2%. The lowest percentage difference is in British Columbia, where the government still spent \$932 million more than what would have been required to account for changes in enrolment and inflation. The differences in other provinces range from 15.5% (Newfoundland & Labrador) to 24.8% (Prince Edward Island).

## Impact on fiscal balance

The magnitude of the extra spending on public school education above those that would account for changes in enrolment and inflation is not small and has important consequences

Figure 3: Comparing Actual and Restrained Spending on Public Schools, 2013/14



Sources: Statistics Canada, 2015, 2016a, 2016b, 2016c.

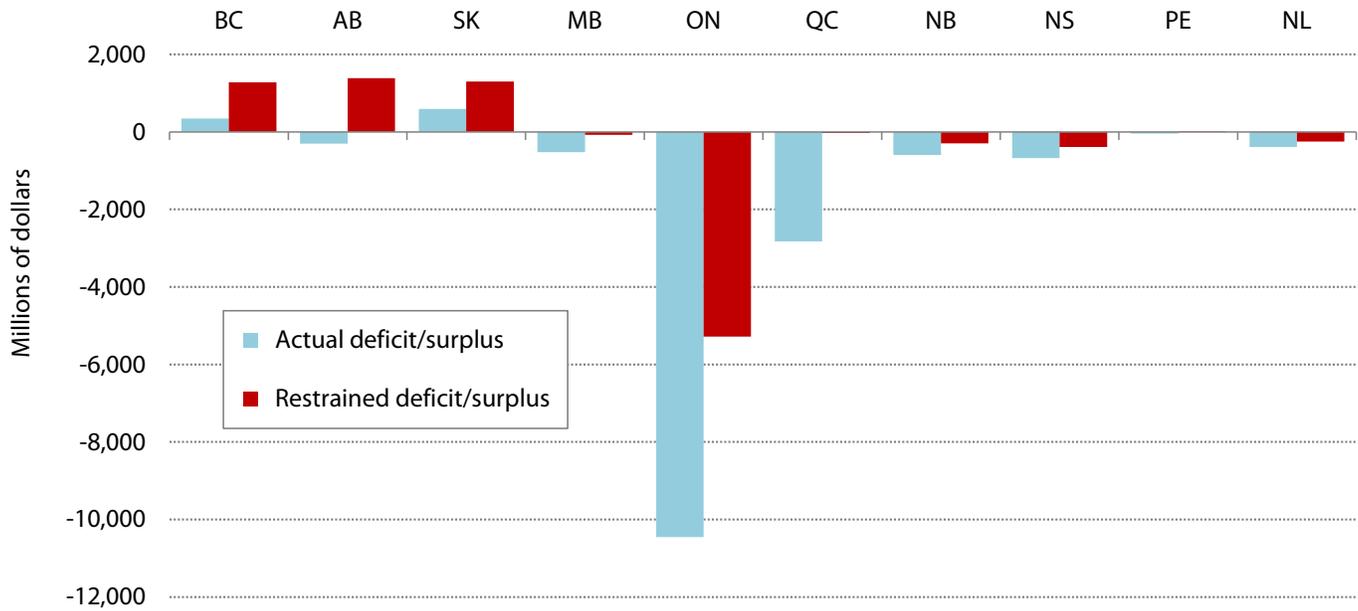
for government finances. This becomes apparent when measuring the impact of extra spending on each provincial government’s deficits or surpluses. In 2013/14, eight out of 10 provinces had budget deficits. The only provinces not in operating deficit<sup>8</sup> were Saskatchewan and British Columbia (see table 1). If governments had exercised more restraint in education spending in public schools, the fiscal position of Canada’s provincial governments would have been substantially different in 2013/14.

<sup>8</sup> Even if a government reports a balanced operating budget, it may still be spending more than it is collecting in revenue, and thus accumulating debt, due to capital spending. Operating spending can be thought of as spending for current-year transfers and services, while capital spending is on projects that will provide services in the future, such as infrastructure construction. For a more detailed discussion on the distinction between capital and operating budgets, see Wen (2015).

Table 6 displays the actual budget balance (deficit or surplus) in 2013/14, the level of extra education spending on public schools relative to the per-student spending in 2004/05, and what the budget balance would have been if public school spending had been restrained. The final column measures the percent reduction in deficits or percent increase in surpluses under restrained education spending in public schools. Figure 4 illustrates the difference between the actual fiscal balance and what the fiscal balance would have been if inflation-adjusted, per-student public school spending had remained constant from 2004/05.

A number of striking conclusions can be drawn from table 6 and figure 4. First, had per-student spending remained constant for the 2004/05 to 2013/14 period, Alberta and Prince Edward

**Figure 4: Provincial Deficit/Surplus with Actual and Restrained Spending on Public Schools, 2013/14**



Sources: Canada, Department of Finance, 2016, Statistics Canada, 2015, 2016a, 2016b, 2016c.

Island would have moved from a deficit to a surplus position in 2013/14. Specifically in Alberta, the government would have had a \$1.4 billion surplus instead of a \$302 million deficit. Also, the deficit in Quebec would have all but disappeared. If the Quebec government had not decided to increase public school spending relative to enrolment, the province would have essentially balanced its budget at least two years earlier than it did (the deficit would have been only \$29 million).<sup>9</sup>

Second, had the two provinces that recorded surpluses in 2013/14 shown more restraint in education spending in public schools, their surpluses would have been even larger than they

were. In British Columbia, the 2013/14 surplus of \$347 million would have been more than three and a half times larger (\$1.3 billion). The surplus in Saskatchewan would have been more than double the actual surplus in 2013/14. It is notable that Saskatchewan has reported budget deficits for the last two years. A larger surplus would have given the province a larger cushion with which to absorb the increase in overall spending and drop in revenue that led to a deficit in 2015/16.<sup>10</sup>

Third and finally, the remaining five provinces (Newfoundland & Labrador, Nova Scotia, New Brunswick, Ontario, and Manitoba) would have

<sup>9</sup> Quebec balanced its budget for the first time in six years in 2015/16.

<sup>10</sup> In 2015/16, Saskatchewan's government increased total spending by 8.3% and revenue fell by 3.0% (Canada, Department of Finance, 2016).

**Table 6: Comparing increases in education spending and fiscal balance, 2013/14**

	Actual deficit/surplus (\$ millions)	Extra increase in education spending (\$ millions)*	Re-strained deficit/surplus (\$ millions)	Deficit reduction/surplus increase (%)
BC	347	932	1,279	268.6
AB	-302	1,688	1,386	558.9
SK	589	712	1,301	120.8
MB	-522	443	-79	84.9
ON	-10,453	5,169	-5,284	49.5
QC	-2,824	2,795	-29	99.0
NB	-600	302	-298	50.3
NS	-677	288	-389	42.6
PE	-46	62	16	134.1
NL	-389	138	-251	35.4
Provincial/territorial total	-14,576	12,725	-1,851	87.3

Sources: Canada, Department of Finance, 2016, Statistics Canada, 2015, 2016a, 2016b, 2016c

\*Compared to 2004/05 spending.

all materially reduced their 2013/14 deficits had education spending increases been restrained to reflect enrolment and price changes. In Canada's largest province, Ontario, the budget deficit would have been cut in half in 2013/14 from \$10.5 billion to \$5.3 billion. Similarly, the deficits in the other four provinces would have been smaller. In Manitoba, for instance, the deficit would have shrunk to less than a sixth its actual size had the government not increased inflation-adjusted, per-student public school spending. Indeed, for Canada as a whole, the total ag-

gregated deficit of the provinces and territories would have been reduced by 87.3% in 2013/14 had increases in education spending been restrained to reflect only inflation and changes in enrolment. This would have translated into lower levels of government debt that must ultimately be paid back by future taxpayers.

## Conclusion

Spending decisions by governments, in particular decisions to spend more on education in public schools beyond what is needed to account for changes in enrolment and inflation, have a substantial impact on government finances. More restraint in education spending in public schools in the 2004/05 to 2013/14 period would have meant some provinces could have avoided a deficit in 2013/14 and would have materially reduced deficit spending for other provinces. Given that government deficit spending has become a chronic problem, provincial governments should look for ways to restrain spending on public schools and other spending areas to return to a balanced budget.

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