Canadian Federation of Students' submission to the

2006 Pre-budget Consultations

September 2006

National Office • Bureau national
500-170 rue Metcalfe Street
Ottawa, Ontario
K2P 1P3

(613) 232-7394

www.cfs-fcee.ca

The Canadian Federation of Students

85 Member Students' Unions
500,000 University and College Students

British Columbia

University of British Columbia Students' Union (Okanagan)
Camosun College Student Society
Capilano College Students' Union
Douglas College Students' Union
Emily Carr Institute of Art and Design Students' Union
King Edward Students' Union
Kwantlen University-College Student Association
Malaspina University-College Students' Union
College of New Caledonia Students' Association
North Island College Students' Association
Northern Lights College Students' Association
Northwest Community College Students' Association
Okanagan College Students' Union
College of the Rockies Students' Union
Selkirk Students' Association
Simon Fraser Student Society
Thompson Rivers University Students' Union
Vancouver Community College Students' Union
University of Victoria Students' Society
University of Victoria Graduate Students' Society

Prairies

Alberta College of Art and Design Students' Association
Brandon University Students' Union
Graduate Students' Association of the University of Calgary
First Nations University of Canada Students' Association
University of Manitoba Students' Union
University of Manitoba Graduate Students' Association
University of Regina Students' Union
Association étudiante du Collège universitaire de Saint-Boniface
University of Saskatchewan Students' Union
University of Saskatchewan Graduate Students' Association
University of Winnipeg Students' Association

Ontario

Algoma University Students' Union
Atkinson Students' Association
Brock University Graduate Students' Association
Carleton University Students' Association
Carleton University Graduate Students' Association
Association étudiante de la Cité collégiale
Student Association of George Brown College
Glendon College Student Union
University of Guelph Central Student Association
University of Guelph Graduate Students' Association

Continued . . .

Members continued:

Lakehead University Student Union

Laurentian Association of Mature and Part-time Students

Laurentian University Students' General Association

Association des étudiantes et étudiants francophones de l'Université Laurentienne

McMaster University Graduate Students' Association

Nipissing University Student Union

Ontario College of Art and Design Student Union

Graduate Students' Association des étudiant(e)s diplômé(e)s de l'Université d'Ottawa

Queen's University Society of Graduate and Professional Students

Ryerson University Students' Union

Continuing Education Students' Association of Ryerson

Saint Paul University Students' Association

University of Toronto at Scarborough Campus Students' Union

University of Toronto Graduate Students' Union

University of Toronto Students' Administrative Council

Association of Part-Time Undergraduate Students of the University of Toronto

Trent University Central Student Association

Trent University Graduate Student Association

University of Western Ontario Society of Graduate Students

Wilfrid Laurier University Graduate Students' Association

University of Windsor Students' Alliance

University of Windsor Graduate Students' Society

University of Windsor Organisation of Part-time University Students

York Federation of Students

York University Graduate Students' Association

Québec

Concordia Students' Union

Concordia University Graduate Students' Association

Post-Graduate Students' Society of McGill University

Maritimes

Acadia Students' Union

Cape Breton University Students' Union

Dalhousie Association of Graduate Students

Holland College Student Union

University of King's College Students' Union

Mount Saint Vincent University Students' Union

University of New Brunswick Graduate Students' Association

Student Union of NSCAD University

University of Prince Edward Island Student Union

University of Prince Edward Island Graduate Student Association

Association générale des étudiants de l'Université Sainte-Anne

Newfoundland & Labrador

Grenfell College Student Union

Marine Institute Students' Union

Memorial University of Newfoundland Students' Union

Graduate Students' Union of the Memorial University of Newfoundland

College of the North Atlantic Students' Union

Executive Summary

Access to post-secondary education continues to be undermined by high tuition fees and student debt. Yet access to education is more important than ever to enhancing Canada's competitiveness, increasing its standard of living, and reducing socioeconomic inequalities.

Successfully reducing financial barriers to university and college will require the federal government to, in close cooperation with the provinces, develop strategies that both increase financial commitments, and make them count.

This brief examines the dramatic government divestment from post-secondary education in the past fifteen years, its impact on access, and policy changes that will restore affordable and high-quality post-secondary education.

Recommendations are as follows:

1. The federal government should, in cooperation with the provinces, create a post-secondary education cash transfer payment for the purpose of reducing tuition fees and improving quality at universities and colleges. The transfer should be guided by the principles set out in a Post-Secondary Education Act.
2. The federal government should scrap the Millennium Scholarship Foundation and use the funds to implement a national system of needs-based grants.
3. The federal government should phase out the education and tuition fee tax credit and apply the savings directly to a new national system of needs-based grants.

Background: User fees impair access

The accessibility gap in Canada's universities and colleges is driven by the cost of a post-secondary education. The defining difference between those who have access to post-secondary education and those who do not is financial resources. Despite the elementary nature of this observation, there is strong resistance among university and college administrators and some government policy-makers to accept this reality. Approximately 350,000 students in Canada are forced to borrow to finance their education every year. Average student debt for a four-year program now approaches $25,000. However, that number will rise rapidly with the increase in loan limits introduced in the 2004 federal budget.

The decision taken to substantially increase the amount that students can borrow, rather than reducing fees, will ensure that students from low- and middle-income households start their working lives saddled with debt, and many others will be deterred from pursuing post-secondary education.

Although policymakers often look at student debt as the deferred cost of a post-secondary education, there is good reason to believe that debt is a primary factor in determining access to post-secondary education at the front end. According to Statistics Canada's *Youth in Transition Survey* (among others), students weigh their post-graduation debt burden when deciding whether to pursue higher education. The Survey found that among secondary school graduates who chose not attend post-secondary education, over 70% cited finances as a factor in their decision (see Figure 1).

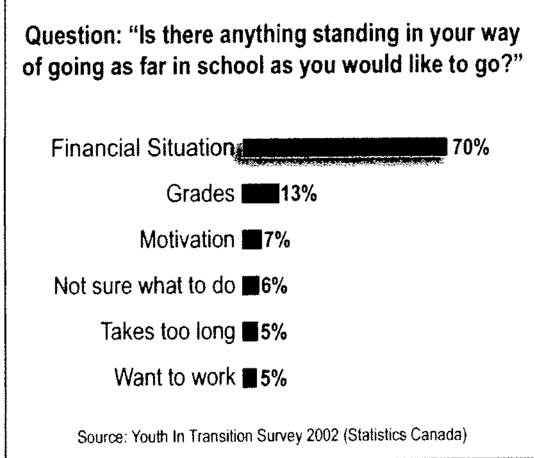


Figure 1: Barriers to Post-Secondary Education

In addition to addressing the reality of debt aversion, it is imperative that the federal government understand the real cost of student debt. A $25,000 student debt is actually a debt of almost $34,000 when accounting for interest payments over the amortization period (see Table 1). When examined through the lens of real workforce experience, relying on increasing student loans to finance post-secondary education is exposed as even more unfair. Existing gaps in earnings between men and women or whites and marginalized communities make the real cost of a post-secondary education a racialised and gendered issue. Those earning lower wages will pay more for their education thanks to extended interest payments (for more on interest payments, see Table 1).

The individual financial return of a post-secondary education has been greatly exaggerated by those who seek to justify higher tuition fees. Those who use a narrow economic equation to argue for higher fees imply that individuals who have a university or college education automatically garner a six-figure salary. Although it is certainly true that those with post-secondary education earn more than those with just a high school diploma, the return on post-secondary education has remained relatively constant since the 1990s, while the cost has skyrocketed.

Table 1: Canada Student Loan Repayment by Principal and Repayment Period

Principal	Repayment Period	[illegible]	Interest Paid	Total [illegible]
$20,000	10 years	$232.22	$7,865.87	$27,865.87
$20,000	15 years	$179.77	$12,357.22	$32,357.22
$20,000	20 years	$155.06	$17,214.29	$37,214.29
$25,000	10 years	$290.27	$9,832.61	$34,832.61
$25,000	15 years	$224.71	$15,446.87	$40,446.87
$25,000	20 years	$193.82	$21,519.28	$46,519.28
$32,000	10 years	$371.55	$12,585.50	$44,585.50
$32,000	15 years	$287.63	$19,771.83	$51,771.83
$32,000	20 years	$248.10	$27,541.74	$59,541.74

Note: As the repayment period is extended, the cost of education for low-income earners increases

Contrary to those who argue that education is simply an investment like any other, a post-secondary education is not the ticket to the highest income bracket, but rather the necessary pathway to a modest income. In *Knowledge Matters*, Human Resources and Skills Development Canada estimates that over 75% of new jobs will require at least two years of post-secondary education by 2007. In the decade following graduation, the average wage of those with such a credential is $32,000 per year compared to $27,000 for high-school graduates, hardly the kind of income that would justify $6,000 in annual tuition fees and $25,000 of student debt.[1]

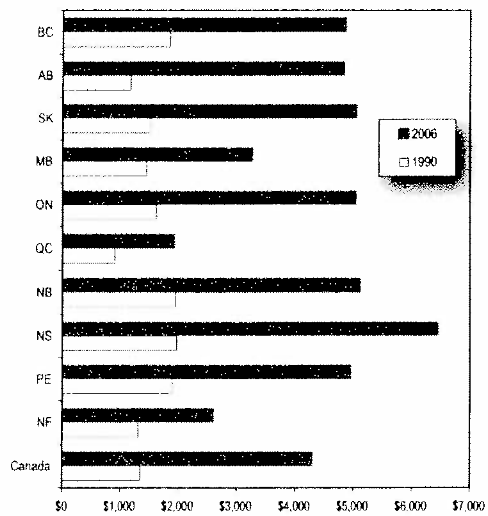
A recent Canadian Association of University Teachers (CAUT) report documented that, as a percentage of disposable income, those in the bottom fourth of income earners devote nearly twice as much to education costs as those in the top fourth.[2]

This evidence becomes more worrisome when it is viewed in the context of recent data on the growing gap between the rich and the poor in Canada. Statistics Canada's 2001 census report showed that the income of those in the bottom quintile remained stagnant through most of the 1990s while families in the top one-tenth of income earners made substantial gains. These findings are corroborated by other census data that found that, on average, Canadians under the age of thirty are earning less than they did in 1980.[3]

Statistics Canada data on average wages shows between 1980 and 2004, average earnings (adjusted for inflation) have only increased by 6.7% and between 2000 and 2004 have actually decreased by 0.6%. During that same period average tuition fees rose by approximately 20%. This is troublesome for several reasons. First, it means a decline in disposable income as increases to earnings are well below tuition fee increases. Second, for those who are fortunate enough to attend college or university, this income data shows that they are likely to experience difficulty repaying mortgage-size student loans. Thus, the current generation of Canadian students and recent graduates is not only the most indebted generation in the country's history, they are also facing a real decline in their income levels.

The greatest factor driving student debt higher is tuition fees. Tuition fees are the single largest expenditure facing most students' budgets. Tuition fees have nearly tripled since 1990, bringing the average tuition fees for arts and sciences undergraduate degrees to over $4,300 per year (see Figure 2). Seven provinces have average tuition fees of approximately $5,000 per year.

Figure 2: Undergraduate Arts Tuition Fees



A study undertaken by U.S. researchers demonstrates that for every $1,000 increase in tuition fees, there is a 19% drop in persistence rates for low-income students.[4] A similar study conducted by economist Thomas Kane in California noted that for every $1,000 in fee hikes there would be a commensurate decline in enrolment of 14.9%. According to Kane, the decline in enrolment comes "almost exclusively from [minority] and low-income students."[5]

In the Canadian context, a study found a direct link between tuition fee hikes and depressed enrolment amongst students from low-income families. The Department of Epidemiology and Biostatistics at the University of Western Ontario undertook a study over a four-year period to determine the effect of steep fee increases on the characteristics of incoming medical students. In the first year examined, 17.3% of first-year students in medical school came from homes where their family income was under $40,000. That year, students were paying the regulated tuition fees of approximately $4,000. By the fourth year of the study, when tuition fees had risen to over $10,000, only 7.7% of first-year students were from this low-income group. Thus, immediately after exorbitant tuition fee increases, there was a 55% decline in the participation of low-income students.

A recent Statistics Canada study of access examined the effect of deregulated fees in professional programs. *The Impact of Tuition Fees on University Access* confirmed earlier studies that report a decline in access for low- and middle-income families. Prior to the deregulation of tuition fees, students from high-income backgrounds were over-represented in programs such as law, dentistry, and medicine. However, the deregulation of fees has intensified the socio-economic stratification in professional programs. The gap widened the most in Ontario, where fees have gone up by over 500% in some professional programs (see Table 2).

Table 2: Selected Professional Program Tuition Fees (Fall 2006)

University	Program	User Fees
Saskatchewan	Dentistry	$32,000
Alberta	Dentistry	$18,183
Toronto	Dentistry	$17,950
W. Ontario	Dentistry	$17,100
Toronto	Medicine	$16,207
Toronto	Law	$16,000
W. Ontario	Medicine	$14,566
McMaster	Medicine	$14,445
Ottawa	Medicine	$14,000
B.C.	Dentistry	$14,000
B.C.	Medicine	$14,000
Queen's	Medicine	$13,500

Federal Cash Transfers for Post-Secondary Education

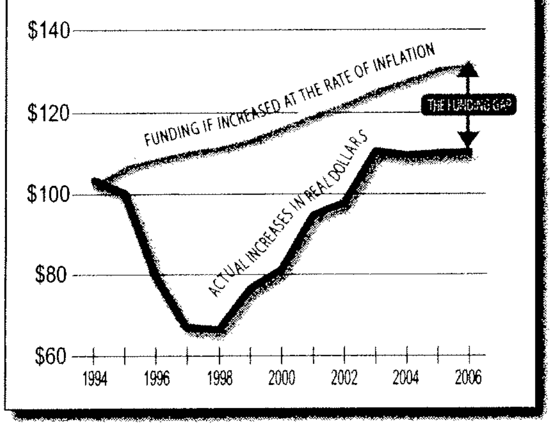
There is a growing consensus in the post-secondary education community that the current design of transfer payment mechanisms is insufficient to meet federal objectives for post-secondary education. This section is a blueprint for how increased funding through a separate and dedicated transfer payment for post-secondary education is a necessary step towards improving the accessibility and quality of Canadian universities and colleges.

The Federal Government in Retreat

To the detriment of access to post-secondary education, the federal government has quietly retreated from its historical role as the key figure in post-secondary education financing.

Billions were cut from post-secondary education and training during the 1990s. Provinces struggled with the increased burden and passed those costs on to students and their families. On a per capita basis, federal funding is still nearly 20% below 1994 levels (see Figure 3). As a direct result of these cuts, tuition fees at Canada's universities more than doubled in less than a decade.

Figure 3: Per Capita Federal Transfers for PSE



The 2006 budget document titled "Restoring Fiscal Balance in Canada" outlines the division of powers in the federation as defined by the Constitution. Under the overarching theme of "Accountability," it is argued that that federal and provincial roles should be better defined, as overlapping jurisdiction results in confusion. In a move to rebalance federal-provincial relations, the new government suggests that its predecessors have been too intrusive in areas of provincial responsibility and have not focused on areas of core federal jurisdiction.

The 2006 budget promised that the federal government will investigate reshaping its role in post-secondary education vis-à-vis the provinces. The Canadian Federation of Students continues to support the position that the federal government has a definite historic and constitutional responsibility to ensure equality of access to post-secondary education in every province.

Towards a Post-Secondary Education Transfer

Recent federal budget surpluses were not used to restore the funding cut from post-secondary education in the 1990s. The federal government has made minor adjustments in areas of its autonomous jurisdiction (ie. income tax), but it has failed to make any effort to engage provincial governments in negotiations to improve the quality and accessibility of Canadian universities and colleges.

The federal government has a clear constitutional and historical role in jointly funding universities and colleges with the provinces. Recently, provincial premiers have signaled that they are interested in exploring further collaboration with the federal government to improve the affordability and quality of post-secondary education. The federal government must use this willingness to reach an agreement on transfers for post-secondary education, in part by restoring cash transfer levels to 0.5% of GDP. Most importantly, the federal government and provincial governments should establish long-term objectives, including reducing tuition fees.

The Canadian Federation of Students and the Canadian Association of University Teachers (CAUT) both recommend the adoption of legislation or other binding forms of agreement that would establish conditions for federal post-secondary education transfers. These conditions must commit the provinces to upholding principles similar to those of the Canada Health Act: public administration, affordability, comprehensiveness, democratic governance, and academic freedom. In return for upholding these principles, provincial governments would receive increased and predictable funding from the federal government.

2005 Budget Amendment and Budget 2006

Currently tuition fees are only frozen in Saskatchewan, Manitoba, Québec, and Newfoundland and Labrador. Governments of all political stripes have recognised that tuition fees are financial barriers to post-secondary education. The federal government should look to the provinces that have frozen tuition fees and aim to support and encourage such initiatives nationwide with the necessary fiscal commitments.

The 2005 federal budget allocated $1.5 billion to improve access to post-secondary education. This federal budget amendment was an important piece of legislation because it advanced the policy goal of reducing tuition fees. It also re-established the federal government's legitimate role in financing access to post-secondary education. Finally, the budget amendment's goal of reducing tuition fees could have initiated negotiations with the provinces on the issue of a new transfer for post-secondary education.

Although the 2006 federal budget claims to uphold the commitment that was signed into law, a closer look reveals a betrayal of the spirit of Bill C-48. Whereas the agreement read as follows: "for supporting training programs and enhancing access to postsecondary education, to benefit, among others, Aboriginal Canadians, an amount not exceeding $1.5 billion," the Conservative budget allocates only one billion dollars to a fund to "enhance universities' and colleges' infrastructure and equipment...as well as related institutional services."

In this light, the 2006 budget contravenes C-48 by failing to follow through with the funds to broadly address affordability. This is not to say that years of federal funding cuts have not had a negative impact on the physical condition of Canada's universities and colleges. However, pitting equality of access against deferred maintenance is callous policy making.

Recommendation 1: The federal government should, in cooperation with the provinces, create a post-secondary education cash transfer payment for the purpose of reducing tuition fees and improving quality at universities and colleges. The transfer should be guided by the principles set out in a Post-Secondary Education Act.

Millennium Scholarship Foundation

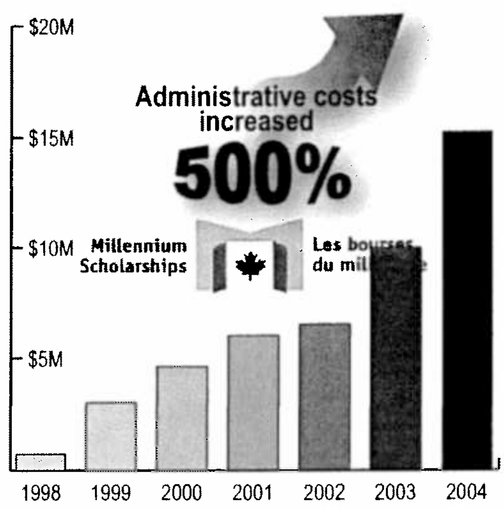
The Millennium Scholarship Foundation (MSF) was created in 1998 as part of the "education budget." Then Finance Minister Paul Martin promised in his budget speech that the MSF would reduce the debt of students with the highest need by $12,000. Since its formation, the Foundation has proven itself to be both an operational failure and mired in controversy over public accountability.

The federal government's desire for "visibility" in the area of post-secondary education funding led to the creation of a new and unnecessary bureaucracy, when those funds could have easily and more efficiently been allocated through the existing CSLP infrastructure. Instead, the MSF has resulted in a provincial patchwork of programs that struggle to be classified as financial aid.

There has been no consistent application of funds in a way that benefits students with demonstrated financial need. Most provinces have simply ignored the non-binding "gentleman's" agreements that were intended to ensure that MSF funds were not clawed back through reduced provincial benefits. An external review of the Foundation that was conducted in 2003 found that the MSF has had a "limited and indirect to non-existent" impact on access to post-secondary education.

In addition to widely-recognised operational failures, there are also mounting concerns about the Foundation's lack of transparency and accountability. According to the Foundation's annual reports, administration costs alone have tripled from $ 4.2 million in 2000 to approximately $15 million in 2004 (see Figure 4). The Foundation has also consistently refused to release detailed information about its multi-million dollar research budget.

Figure 4: Millennium Foundation Administrative Costs



This secrecy is particularly disconcerting given that the Foundation is awarding lucrative, "no bid" contracts to former employees. **The Foundation recently awarded a $4 million dollar contract to two of its former employees** who left the Foundation to work at the U.S.-based Educational Policy Institute. It is not clear by what process this funding was allocated, nor is there any mention of the multi-million dollar project on the Foundation's website.

The Canadian Federation of Students is not alone in its concern about the fiscal and operational accountability of the Millennium Scholarship Foundation. In testimony before the Standing Committee on Public Accounts, Auditor General Sheila Fraser (February 12, 2003) and Professor Peter Aucoin of Dalhousie University (October 8, 2003) both criticized the fact that foundations are unaccountable to Parliament despite their vast expenditures of tax dollars. The Auditor General was particularly concerned that the finances and operations of the MSF are essentially the business of its private board.

The MSF is a failed experiment in delivering student financial assistance. Unfortunately, it has been low- and middle- income students that have suffered the consequences of this cynical exercise. In light of this record of abject failure and the pressing need for a modern system of student financial assistance, the Canadian Federation of Students is calling upon the federal government to not extend the Foundation's mandate, and to redirect its budget to expanding a national needs-based grant, to be administered by the Canada Student Loan Program.

Recommendation 2: The federal government should scrap the Millennium Scholarship Foundation and use the funds to implement a national system of needs-based grants.

Post-Secondary Education Tax Credits

Since the mid-1990s, the federal government has increasingly looked to tax expenditures as a substitute for direct funding for student financial assistance. In total, federal tax expenditures for post-secondary students have grown from $566 million in 1996 to almost $1.7 billion in 2006. This represents an increase of almost 200%, and more than the total amount that the federal government will spend on upfront grants this year.

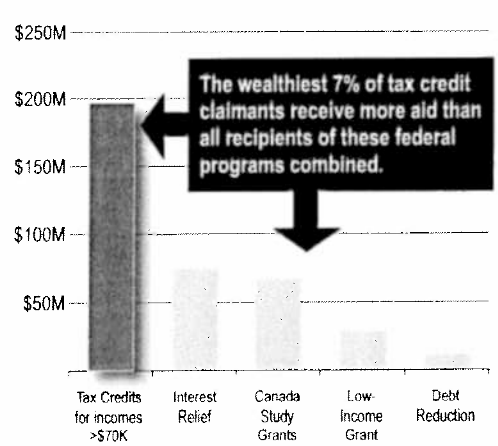
The 2006 federal budget introduced tax changes for students enrolled in post-secondary education. The budget introduces a non-refundable income tax credit of $65 per month for full-time students and $20 for part-time students to defray the cost of textbooks. The net benefit for a student enrolled full-time for eight months is expected to be a mere $80, less than the cost of one textbook per academic year. However, most students do not earn enough to pay income tax, and will derive no benefit whatsoever from an additional non-refundable tax credit.

The 2006 budget eliminated the taxation of scholarships, bursaries and grants. Grants were taxable over $500 until 2000, when the Federation exposed the inadequacy of the Millennium Scholarships, at which point the federal government moved to exempt $3,000 (the average Millennium Scholarship amount). The elimination of the tax on scholarships is not necessarily as forward-looking as it seems, because the average grant is still less than $3,000. Therefore, the tax largely only applies to graduate student research grants and very exceptional need and/or merit-based grants.

In the case of graduate students receiving Canada Graduate Scholarships (the most generous federal research grants for students), the elimination of the tax on research grants will save Master's students $1,500 and most PhD students more than $4,000. However, the majority of graduate students do not qualify for federal research grants. Thus, although a substantial portion of the grant will be recovered by grant recipients, federal policy still ignores the financial need of most graduate students. This government has refused to implement the 50% increase in the number of Canada Graduate Scholarships that was announced in the November 2005 Economic and Fiscal Update.

Despite their large price tag, federal tax expenditures do virtually nothing to either improve access to post-secondary education or relieve student debt. Low-income students will not benefit from non-refundable tax credits. Moreover, since everyone who participates in post-secondary education qualifies for tax credits regardless of financial need, the federal government is focusing on directing public funding where it is not necessarily improving access for students who cannot afford high tuition fees.

Figure 5: Comparison of Federal Spending on Student Aid



This expenditure, if offered as upfront grants, could deliver significant financial assistance to students with the greatest financial need. For example, if every Canada Student Loan recipient received a $3,000 grant, the cost would be approximately $1.13 billion per year. In other words, if the amount of money the federal government spent on the tuition fee and education tax credit each year ($1.15B) was simply shifted to a "front-end" grant through the Canada Student Loans Program, access could be improved substantially and student debt could be reduced.

Helping Those Who Need Help the Least

The Department of Finance estimates that transferred amounts account for almost half the total value of education and tuition fee tax credits claimed. In total, individuals with incomes over $70,000 claimed nearly $200 million in federal education and tuition fee tax credits for the 2003 taxation year (the last year for which figures are available), and most of this total was likely claimed as amounts transferred from students to family members. This $200 million tax break to high-income parents is more than what is disbursed through four other superior financial aid programs combined (see Figure 5).

With such a substantial portion of post-secondary education credits being claimed as amounts transferred to family members, there is no guarantee that the full value of these credits is even being applied to education-related expenses.

Recommendation 3: The federal government should phase out the education and tuition fee tax credit and apply the savings directly to a new national system of needs-based grants.

Conclusion

The recommendations contained within this submission are modest and, with the exception of a request for augmented transfer payments, cost neutral. Moreover, the cash transfer recommended here would simply see the level of funding restored to previous levels.

This document has demonstrated that each year the high upfront costs of post-secondary education dissuade tens of thousands of young people from applying for university and college, while thousands more drop out because they can no longer afford to attend. This situation continues to worsen, despite the millions of dollars spent each year by the federal government on a patchwork of student aid programs. The failure of federal initiatives to improve access to post-secondary education can be traced back to an incoherent vision for student financial assistance. A mixture of wealth-based savings vehicles, blind tax rebates, mortgage-sized loans, and depreciating grants characterise the federal approach. Punitive elements of the Canada Student Loans Program, such as credit checks and the bankruptcy prohibition, further exacerbate the widening participation gap.

This submission has assembled evidence from a variety of sources, both Canadian and international, to reinforce that needs-based grants are the most effective measure to improve equality of access to post-secondary education. Furthermore, this brief has clarified that virtually all of the credible research available suggests that upfront costs, especially tuition fees, are a barrier to the participation of students from low- and middle-income backgrounds. The same research concludes that massive loans are an inadequate way to address the resource gap between those who can afford tuition fees and those who cannot.

Finally, this brief articulated the importance of a dedicated transfer payment for post-secondary education. A new framework should improve transparency and accountability in the federal-provincial relationship governing the core funding of Canadian universities and colleges. However, it must be stressed that a new cash transfer payment for post-secondary education is a means to an end, not an end in itself. A post-secondary education transfer must have the explicit goals of reducing tuition fees and improving the quality of the learning environment. The agreed upon conditions for provincial spending must be accompanied by conditions for predictable and escalating funding by the federal government, because without specific and binding conditions on the cash transfer, the entire project will be pointless.

Endnotes

1. For a more detailed overview of the "return" on a post-secondary education see Hugh MacKenzie's Funding Post-Secondary Education in Ontario: Beyond the path of least resistance.

2. See "University and College Affordability: How and why have fees increased." *Education Review.* Canadian Association of University Teachers.

3. For further documentation of this trend, see Armine Yalnizyan's *Canada's Great Divide: The Politics of the Rich and the Poor in the 1990s.* In addition, Andrew Jackson's *Falling Behind* specifically addresses the stagnant wages of working youth in Canada.

4. This study also reveals a strong correlation between financial barriers and persistence (re-enrolment) rates for poor and working class students in the United States. The researchers concluded "... the high-tuition, high loan approach ... to higher education finance does not seem to be working". See "Social Class and College Costs: Examining the financial nexus between college choice and persistence". Michael B. Paulsen and Edward P. St. John, *The Journal Of Higher Education*, Vol. 73, No. 2, (March/April 2002).

5. Thomas Kane, an economist at the University of California at Los Angeles, examines price sensitivity for tuition fee hikes in the public college system in California. The key portion of Kane's findings suggests that this drop comes "almost exclusively from Latino, African American, and low income students". See "College-Going and Inequality: A literature review", paper for the Russell Sage Foundation, June 2001, and *The Price of Admission: Rethinking How Americans Pay for College* (November 1999) University of California Press.