

2003-2004 Federal Budget

Introduction

At a time when higher education is less affordable than at any point since the second World War, the federal government wasted a valuable opportunity to reduce financial barriers to post-secondary education.

Tuition fees remain the single-most significant financial barrier to achieving equality of access to post-secondary education. Statistics Canada data for the Youth in Transition Survey (YITS) show that, of the high school graduates who faced barriers to their post-secondary participation, over 70% cited financial barriers¹. The Canadian Association of University Teachers examined trends in wages and tuition fees from 1857 to 2002 and found that tuition fees (when indexed to inflation) are higher now than any other time in the 20th century. Despite claims that \$1 to \$2 billion will be spent on research, skills, and learning, a close examination reveals that very little of this will go to reducing tuition fees or student debt.

Most new funding will go to research directed at commercialisation, with the exception of a modest amount for resuscitation of graduate student research. While the 2003 federal budget partially compensates for past funding cuts, it does not reverse the trend that has seen a greater share of costs for post-secondary education shifted to students and away from public funding.

Research

Granting Councils

The 2003 federal budget increases funding for the three research granting councils, but this increase offers little to researchers and students in the social sciences and humanities. The Canadian Institute for Health Research (CIHR), the Natural Sciences and Engineering Research Council (NSERC) and the Social Sciences and Humanities Research Council (SSHRC) will all see their base budgets increased by ten percent beginning in 2003-2004. For both CIHR and NSERC, this will mean an additional \$55 million per year, but only \$15 million for SSHRC. While funding for NSERC will reach

\$605 million in the next fiscal year, the already over-stretched SSHRC budget will increase to only \$175 million, barely enough to maintain the status quo for federally sponsored research in the humanities and social sciences.

Although 55% to 60% of students and faculty in Canada fall within SSHRC's mandate, it is allocated only 12.5% of the funding for the three granting councils². As a result of this persistent underfunding, over 40% of applications that were recommended to receive SSHRC standard research grants in 2002 could not be funded³. In recent years, SSHRC has been able to support only 3.5% of the graduate students within its mandate, in contrast to rates of 20% for NSERC and 14% for CIHR⁴.

To remedy these inequities, the Federation has long advocated higher increases to SSHRC as a step towards equalising funding between the three granting councils. An immediate injection of \$97 million into the SSHRC budget, as recommended in the Federation's 2002 submission to the Standing Committee on Finance, would have been a solid start towards fair and proportional funding for research in the social sciences and humanities.

Canadian Graduate Scholarships

The Canada Graduate Scholarships program is probably the most promising new program for students announced in the 2003 budget. When fully implemented in 2007-2008, Canada Graduate Scholarships will spend \$105 million annually to support 2,000 master's and 2,000 doctoral students each year. Scholarships at the doctoral level will provide students with an annual award of \$35,000 for three years, while those at masters level will provide \$17,500 for one year.

The scholarships will be administered as a new program through the research granting councils, and allocated in proportion to the distribution of the graduate student population within the disciplines. 60 per cent will go to graduate students in the social sciences and humanities, 30 percent to natural sciences and engineering students and 10 per cent to students doing health research.

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This proportional allocation of funding is in line with the Federation's 2002 recommendations to the Standing Committee on Finance and marks a significant improvement in funding for graduate students in the social sciences and humanities. If the Social Sciences and Humanities Research Council (SSHRC) continues to support graduate students at current levels⁵, the addition of the Canada Graduate Scholarships will increase the total number of federally supported PhD students in the social sciences and humanities by 85% above current levels⁵. For the first time in 15 years, federal scholarships will also be available to social sciences and humanities masters students. SSHRC cancelled scholarships for masters students in 1988, and funded only 100 MA students annually at the time. Based on the proportional funding formula proposed, the Canada Graduate Scholarships will fund 1,200 humanities and social sciences masters students per year by the time the program is fully implemented.

The total number of federally supported science and engineering graduate scholarships will also increase significantly, rising from the 3,000 funded through the Natural Sciences and Engineering Research Council (NSERC) in 2002 to around 4,600 in total by 2007. Students in health research fields will be eligible for 400 new federal scholarships annually, an increase of 45% above the number currently funded by the Canada Institutes of Health Research (CIHR).

Though the Canadian Graduate Scholarships are clearly a step in the right direction, the multi-year phase-in will limit the number of current graduate students who will benefit from the program. A low first year allocation of \$25 million will likely mean that less than 1,000 graduate students will be funded in 2003-2004

In the long-term, the Canadian Graduate Scholarship program must be expanded if it is to succeed in addressing the financial needs of Canada's growing graduate student population and the urgent faculty renewal required at Canadian post-secondary institutions. By 2011, enrolment in Canadian graduate programs is expected to increase by anywhere from 20% to 30%⁶. This enrolment increase means that real growth in federal scholarships as a result of the Canadian Graduate Scholarship program will be in the range of 25% to 40%, a figure less impressive than the 70% absolute increase cited in the 2003 budget documents⁷. Canadian post-secondary institutions will require 30,000 new full-time faculty to cope with increased

enrolment in 2011, and another 20,000 to replace retiring faculty across Canada⁸.

Indirect Costs of Research

The 2003 budget allocates \$225 million annually to help fund the "indirect costs" of research. Indirect costs of research are the additional costs borne by Canadian universities, colleges, and research hospitals for incidental and maintenance expenses associated with research projects funded by the granting councils. The 2001 budget contained a one-time allocation of \$200 million for indirect costs of research, but this new funding is allocated as an ongoing funding envelope that will be administered through the federal granting councils.

This increase in funding for institutions will relieve some of the stress on university operating budgets that has arisen from increased research related expenses; however there is no guarantee that this will free up any funding for other aspects of university operations. A direct reinvestment in transfer payments for core funding for colleges and universities is badly needed, and this budget does not provide it. The Canadian Association of University Teachers estimates that total increased spending for post-secondary education in the 2003 budget is only about one fifth the amount required to restore funding to the levels of the early 1990s⁹.

There is also concern that the federal government's continued funding for indirect costs of research may be contingent on the increased commercialisation of publicly-funded research. The budget plan states explicitly that the growth of commercialisation in university research will be used to measure the success of the program when it is reviewed in three years. The Federation firmly opposes linking university research directly to commercial outcomes or partnerships with the private sector.

Aboriginal Education

The 2003 federal budget includes a \$12-million endowment to establish post-secondary scholarships for aboriginal people. The scholarships will be administered by the National Aboriginal Achievement Foundation, a private charity that provides funding to Aboriginal students for education and training. No details were provided on the number of scholarships that will be funded through the endowment, nor the dollar amount of individual scholarships.

While new money to assist First Nations peoples' participation in post-secondary education is welcome, this one-time endowment does not constitute the type of long-term investment that is required. When adjusted for inflation, annual funding through Indian and Northern Affairs Canada for Aboriginal post-secondary education actually declined by almost \$14 million between 1998 and 2002¹⁰ (see Figure 1). At the same time, rising tuition fees mean that post-secondary education costs a student much more than it did a decade ago.

Reduced funding and rising tuition fees are likely a key factor in the stagnation of Aboriginal enrolment in post-secondary education since the mid-1990s.

Canadian Learning Institute

The budget sets aside a one-time contribution of \$100 million in 2003-2004 for the establishment of a "Canadian Learning Institute" under Human Resources Development Canada. According to the budget plan, the Canadian Learning Institute will work to "broaden and deepen data and information on education and learning" in Canada.

Consultations on the Canadian Learning Institute only began in January 2003, so no details are yet available on the mandate, structure, and governance of the Institute. Ideally, the proposed Institute will help address knowledge gaps around issues such as accessibility, participation rates, and student debt. However, the lack of available details about governance and mandate of the new body is a cause for concern. The Institute could be used to implement key performance indicators or, like the Millennium Scholarship Foundation, provide political rationale for federal government education policy.

Canada Student Loans Program

A poll conducted before the 2003 federal budget by Vector Research and Development, a polling coalition that includes the Federation, showed that eight out of ten Canadians consider increased spending on student aid to be important.

Debt Reduction in Repayment

Since its introduction in the 1998 budget, the Debt Reduction in Repayment program has helped approximately 600 students, or about one-tenth of one percent of people repaying student loans. Then Finance

Minister Paul Martin promised that the program would help 12,000 each year. The program was supposed to forgive 50% or \$10,000 of CSLP debt, whichever is less.

After calls by the Canadian Federation of Students for increases to the income thresholds for eligibility for debt reduction, several news stories brought notoriety to the failing program in Spring 2002.

The federal government responded by pledging to relax the eligibility requirements for debt reduction. The

federal government has removed the 50% cap on the initial reduction, and has introduced the possibility of receiving an additional \$5,000 forgiven after 12 months, and another \$5,000 after 24 more months if financial difficulty is still being experienced by the borrower.

Unfortunately, back-end programs like Debt Reduction in Repayment can begin to address the tip of the student debt iceberg, but do little to improve the accessibility of colleges and universities. Front-end measures like reduced tuition fees and needs-based grants do far more to improve accessibility.

Convention Refugees

The right to have access to the Canada Student Loans Program has been extended to convention¹¹ refugees. The Canadian Federation of Students worked with the Maytree Foundation to ensure that refugees could enjoy the same rights as landed immigrants and Canadian citizens.

It is estimated that approximately 1,000 refugees will apply for student loans before they attain landed immigrant status. The cost associated with lending \$4 million annually is nominal, which raises questions about why the federal government waited so long to extend eligibility.

Interest Relief

Under the Interest Relief program,¹² the federal government will pay the interest accruing on Canada Student Loans held by eligible borrowers for 30 months,



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with the possibility of an additional extension of 24 months. Eligibility for the program is based on net income. Before now, people repaying student loans who have missed three consecutive monthly payments were considered in "default" and ineligible for further debt management measures, including Interest Relief.

The 2003 federal budget has modified Interest Relief restrictions to allow borrowers with loans in default and borrowers who have declared bankruptcy to apply for Interest Relief. Though the impact of this change will affect few people in repayment, it should help those most in need of debt management assistance.

Interest Relief is an expensive program for the federal government because of the relatively high usage of the program, but it is another back-end measure that provides only short-term and minor assistance, for those who qualify. The very existence of Interest Relief raises questions about the revenue generated off of the backs of students in the form of interest payments. Since 2000, all new Canada Student Loans are directly financed by the federal government, which means that interest payments on post-2000 student loans go directly into federal government coffers.

In-study Earnings

The 2003 federal budget elevated the in-study earnings exemption from \$600 per year to \$1,700 per year. This will have the effect of allowing students to earn an extra \$1,100 before 80% of earnings are clawed back from student loans.

The Canadian Federation of Students lobbied for an exemption of \$1,700 per semester, with the eventual elimination of claw backs on in-study earnings.

Canada Health and Social Transfer

Beginning April 1, 2004, the Canada Health and Social Transfer (CHST) will be broken into two transfer payments: the Canada Health Transfer, and the Canada Social Transfer. The Canada Health Transfer will maintain a 62% share of the CHST in 2004 and beyond, and the Canada Social Transfer will receive the remaining 38% (see Table 1).

Under the new arrangement, the Social Transfer will still combine core post-secondary education funding with social

services funding. The new CST is a mixed blessing in that it takes transfer payments one step closer to a structure under which post-secondary education funding can be in its own distinct envelop; yet the budget contained no new funding for transfer payments. Canada's post-secondary education system is more than \$3 billion poorer than nine years ago when the Chrétien government began social spending cuts. Modest reinvestment in transfer payments in recent years has stemmed the tide, but not compensated the system for years of under-funding.

Policies Remaining in Effect

Many poor policy decisions affecting post-secondary remain a reality for students. The following three initiatives were introduced in 1998 budget legislation.

Bankruptcy Prohibition Canada Student Loans

Changes to the Bankruptcy and Insolvency Act continue to plague the most desperate and vulnerable people repaying student loans. By shackling people to very large debts for an entire decade, this law has created extreme hardship for people in difficult financial positions. For many, this situation is compounded by harassment from private debt collectors.

Recently, the report of the Personal Insolvency Task Force¹³ recommended that the prohibition be lowered from ten years to five years after the completion of studies. Despite this expert opinion, the federal government continues to treat students as fraud artists when billions of dollars of Industry Canada corporate loans go unpaid.¹⁴

The Canadian Federation of Students challenge of the ten-year prohibition under the Canadian Charter of Rights and Freedoms continues. The matter is scheduled to be heard before the courts this summer.

Credit Checks

In addition to the discriminatory changes to the Bankruptcy and Insolvency Act, the 1998 federal budget also moved to deny low-income earners access to the Canada Student Loans Program based on credit history. Currently, all applicants to the CSLP must pass a credit history check, whereby those who have missed three consecutive payments on three debts of \$1,000 or more are rejected.

As a social program, the Canada Student Loans Program¹⁵

was intended to be available to all students who demonstrate financial need. Credit checks work in direct opposition to this goal.

Millennium Scholarship Foundation

In its 2002-2003 submission to the Standing Committee on Finance, the Canadian Federation of Students called for the Millennium Scholarship Foundation to be replaced with a national program of needs-based grants. Provincial misuse makes the Foundation's impact on student debt minimal. Its political research agenda makes the Foundation the federal government's lobbyist for higher student debt.

Conclusion

A few things were made clear in the 2003 federal budget. The first is that the only responsibility for post-secondary education that the federal government takes seriously is its responsibility for university research. By making university presidents promise to triple the commercialisation of research¹⁶, new funding for indirect costs and unbalanced funding for granting councils ensures that even more publicly funded research will be compromised by public-private partnerships.

Second, more than \$2 billion was spent on the military and more corporate tax cuts, but not a penny was found for core funding to universities and colleges. Without reconsidering the reckless \$100 billion tax cuts of 2000, the federal government actually cut tax revenues even deeper, rather than making the accessibility of colleges and universities a priority.

However, the student movement has an opening created by the split of the Canada Health and Social Transfer. Although this was prompted largely by concerns from the

provinces about health care, a tremendous opportunity lies ahead for the Canadian Federation of Students. Mobilising and lobbying at both the provincial and the federal level will be crucial to make post-secondary education the next federal-provincial project.

Footnotes

1. *At a Crossroads: First results for the 18 to 20 year old cohort of the Youth in Transition Survey*. Human resources Development and Statistics Canada, January 2002.
2. *Facts and Figures: The three Granting Councils*. Social Science and Humanities Research Council, September 12, 2002.
3. *Facts and Figures*.
4. *Facts and Figures*.
5. *Facts and Figures*.
6. *Trends in Higher Education Backgrounder*. Association of Universities and Colleges Canada, October 2002.
7. Calculation based on *Trends in Higher Education Backgrounder*.
8. *Trends in Higher Education Backgrounder*.
9. Canadian Association of University Teachers 2003 Budget Analysis.

10. Indian and Northern Affairs Canada and Canadian Polar Commission, Performance Reports for 1998-1999 and 2002-2003 (adjusted to 2002 dollars).
11. 1951 United Nations Convention Relating to the Status of Refugees.
12. Interest Relief cost \$107 million for the 2000-2001 loan year; almost double what was spent only two years earlier.
13. Commissioned by the Office of the Superintendent of Bankruptcy.
14. Industry Canada lent \$3.2 billion between 1982 and 1997. Only 15% has been repaid so far. (Canadian Taxpayer's Federation).
15. In lieu of a national system of needs-based grants.
16. *Framework of Agreed Principles on Federally Funded University Research*, Government of Canada and the Association of Universities and Colleges of Canada (November 18, 2002).

Table 1 - Federal Transfer Payments to the Provinces, 2000-2001 to 2007-2008

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
CHST								
Cash	15,500	18,300	19,100	19,800				
Tax transfers	16,400	16,150	16,150	16,950				
<i>TOTAL</i>	<i>31,900</i>	<i>34,450</i>	<i>35,250</i>	<i>36,750</i>				
Canada Social Transfer (38%) (post-secondary education and social services only)								
Cash					7,750	8,000	8,200	8,450
Tax transfers					6,800	7,200	7,600	8,000
<i>TOTAL</i>					<i>14,550</i>	<i>15,200</i>	<i>15,800</i>	<i>16,450</i>

Note: CST cash transfers are estimates, and tax transfers are projections

**Figure 1 - Aboriginal Post-Secondary Enrolment,
INAC PSE Funding and Tuition Fees, 1991-2001**

