



# 2008 Federal Budget Analysis

## General Overview

The largest federal expenditures made since Prime Minister Stephen Harper took office are on tax cuts and national debt reduction (not to be confused with student debt reduction). Budget 2008 forecasts the following:

- \$23.9 billion in tax cuts (2007/08 to 2009/10)
- \$13.8 billion in debt reduction
- \$5.4 billion in new spending

Most tax measures announced in the 2008 federal budget, such as the new Tax Free Savings Account, will provide little or no benefit to students.

It is also noteworthy that significant funds used in new spending come from cuts to programs initiated in the previous two years.

The budget can be downloaded from [www.budget.gc.ca](http://www.budget.gc.ca)

## Canada Student Grant Program

The 2008 federal budget marked a critical victory for the Federation's "Grants NOT Loans" campaign.

In 2009, the Millennium Scholarship Foundation will wind down and be replaced with a national system of student grants.

Although occasionally portrayed as a national program, the Foundation could be better described as a third-party that transferred sums to provincial governments that, in some cases, were used on financial aid. The distinction between that model and a government-run program that (1) reports to Parliament, (2) is subject to federal transparency standards, and (3) can be reviewed and improved with input from students and the public, can not be exaggerated.

Slated to begin at \$350 million and increase to over \$430 million by 2012, the "Canada Student Grant Program" will be means-tested and reach approximately 245,000 students. Grant disbursements will be \$250 per month (or \$2,000 for an eight-month academic year) for low-income students and \$100 per month (or \$800) for middle-income students.

As recommended by the Federation, the Department of Human Resources and Skills Development will administer the CSGP.

On budget day, Department of Finance officials admitted that there are still several details to be settled before it's implementation, and the Minister of Human Resources and Skills Development has pledged to work with the Canadian Federation of Students to maximize the new grant's effectiveness.

The budget makes reference to "consolidating" \$138 million in existing grants (in addition to the \$350 million). This likely includes the Canada Access Grant and the Canada Study Grant. Although the Canada Student Grant Program renders the Access Grant redundant, the Study Grants primarily serve student populations with high financial need, such as students with disabilities and students with dependants. The Federation will seek clarification as to how this "consolidation" will take place and its impact on students.

## Graduate Students

Graduate students figured prominently again in the federal budget.

Last year's budget added 1,000 new Canada Graduate Scholarships. The 2008 budget focuses on research "excellence". To accomplish this goal, the budget creates 500 new Canada Graduate Scholarships to be awarded to eligible PhD students from Canada or beyond. It is not clear how this crop of scholarship recipients will be more excellent than previous recipients.

The 2008 budget allocates top-up funding for existing Canada Graduate Scholarship holders to study for one semester in another country. 250 recipients will receive up to \$6,000 to be excellent abroad.

## University Research

The 2008 federal budget offers very little for basic research. Instead, the Conservative government continues to fund a narrow range of research pursuits.

In keeping with the excellence agenda mentioned above, the budget also creates "Global Excellence" Research

Chairs in the following targeted areas: the environment, natural resources and energy, health, and information and communication technologies.

The granting councils received an additional \$80 million annually: \$34 million for the Canada Institutes for Health Research, \$34 million for the Natural Sciences and Engineering Research Council, and \$12 million for the Social Sciences. All of the new funding is for projects in a narrow range of fields, such as the automotive industry or food and drug safety.

The budget increases the annual funding for the so-called indirect costs of research by \$15 million bringing the total to \$330 million per year.

## Student Loan Repayment

### Interest Rates Maintained at Prime + 2.5%

Despite widespread speculation in advance, Budget 2008 does not reduce the Canada Student Loan interest rate.

When students graduate and consolidate their loans and begin repayment, they are given two options for the rate of interest to pay. The more common selection is a “floating” rate that changes with the government’s prime lending rate. The actual rate that students pay under this option is prime plus 2.5%. Currently, the prime rate is 5.75%, so the floating rate is 8.25%. The prime rate has recently been as low as 3.75% in summer 2004 (the impact of various changes in interest rates are summarized in Table 1).

It is estimated that the Government of Canada collects over \$315 million in interest payments each year, a number growing as national student debt worsens. In *Strategy for Change: Money does matter*, the Federation called for a reduced interest rate on Canada Student Loans.

*Table 1: Amounts paid in compound interest on a ten-year repayment term with a \$25,000 student debt*

Interest rate	Interest Paid	Total Amt.	Difference vs. 8.25%
8.25%	\$11,796	\$36,796	n/a
7.25%	\$10,220	\$35,220	\$1,575
6.25%	\$8,684	\$33,684	\$3,112
5.75% (prime)	\$7,931	\$32,931	\$3,865

## Interest Relief “Modernization”

The federal budget allocates \$45 million beginning in 2009 to “modernize” the Canada Student Loan Program. Although short on details, the budget pledges updates to online service delivery, parental contribution thresholds, and repayment assistance. The reference to repayment assistance may signal a move towards a revised Interest Relief program being widely discussed in the Department of Human Resources and Skills Development and may include a sliding eligibility scale, providing more assistance as a graduate’s debt-to-income ratio increases. Such criteria is already in place in Nova Scotia (the “Repayment Assistance Program”).

## Aboriginal Students

The 2008 federal budget makes no new commitments for the Post-Secondary Student Support Program, the most important funding vehicle for Aboriginal post-secondary students.

The budget allocates \$70 million to support the work of “willing” First Nations and provinces to establish benchmarks and goals for education.

## Core Funding

This is the third budget for the Conservatives since they took office in January 2006. Although there was a substantial increase to funding for post-secondary education through the Canada Social Transfer in the 2007 federal budget, Stephen Harper has yet to make good on his 2006 election promise to create a dedicated transfer payment for post-secondary education.

## Conclusion

For students, this budget will very likely be remembered for the introduction of Canada Student Grants Program. Although many details of program design are unknown at this point, it is clear that there is significant room for improvement on assistance levels and the consideration of students from certain marginalized communities. However, arguably the most important structural change has been accomplished, and Canadian students now have an accountable national system of grants that can be developed by government in the coming years.