

Federal Budget 2001-2002

On December 10, 2001, Finance Minister Paul Martin tabled the 2001 federal budget in the House of Commons. What follows is an overview of post secondary education measures in the budget, as well as the Federation's analysis.

The Federation's public response is tempered by the growing inequity of post secondary education participation rates. Since 1998, two significant studies of participation rates at the University of Guelph and the University of Western Ontario have demonstrated that low and modest-income families are being denied access to higher education. The dramatic decline in participation rates of Canadians from low-income homes was again confirmed on December 7, 2001 in a report released by Statistics Canada. The report, the first comprehensive report on participation rates by socio-economic status in close to ten years, determined that wealthy families were 2.5 times more likely to participate in post secondary education than poor families. As this overview will demonstrate, the 2001 federal budget did not introduce any new measures to address this growing inequity.

Indirect Costs of Research

The Budget contained a plan to fund the "indirect costs" of university research. The indirect costs of research is the additional cost borne by Canadian universities for incidental and maintenance expenses associated with research projects funded by the granting councils.

Though research grants cover the cost of staff and equipment directly associated with a project, they do not cover inevitable increases to infrastructure, utility and physical plant costs at an institution. Since the introduction of new base for funding research in 1997, universities have been paying for these costs out of their operating budgets. The Association of University and Colleges Canada (AUCC), the organization representing university and institutional presidents, has argued that universities successful in attracting research funding are penalized by these extra

costs and as a result are forced to reduce costs and services in other parts of their institutions.

The Federation has always maintained that research in Canada should be federally funded and publicly accountable. The Federation also shares the view that the full cost of research projects should be accounted for when grants are awarded. The \$200 million contained in this year's budget to fund the indirect cost of research, however, does little to address the overall crisis in access and quality at Canadian post secondary institutions.

Since 1994, over \$3 billion has been cut from the Canada Health and Social Transfer (CHST) for post secondary education and training. During that same period tuition fees increased by over 125%, and student debt has risen from an average of \$8,000 to \$25,000. Though the federal government claims to have restored the CHST to 1994 levels, this modest re-investment has been set aside exclusively for health care.

Funding the indirect costs of research is a small step toward restoring the damage done by funding cuts in the 1990s. However, the federal government continues to ignore the crisis in core funding for post secondary education. By failing to address tuition fees and the student debt crisis, the 2001 budget exacerbates the recent trends in accessibility outlined above and ensures that higher education remains out of reach for most low and middle income Canadians.

Granting Councils

All three of Canada's public research granting councils were awarded an increase in their annual budgets. The Canada Institutes for Health Research (CIHR) received an increase of \$75 million, bringing the Institutes' yearly funding to over \$560 million. Both the Natural Sciences and Engineering Research Council (NSERC) and the Social Science and Humanities Research Council (SSHRC) had their budgets increased by seven percent. This resulted in an additional \$35.6 million for the sciences, and \$9.5 million for arts and social

sciences. NSERC's annual budget now tops \$550 million, while SSHRC continues to struggle with less than \$160 million.

In the 2001 submission to the Standing Committee on Finance, the Federation recommended that the federal government take steps to equalize the funding between SSHRC and the other granting councils. Currently, SSHRC is only capable of funding approximately 4% of graduate students in the social sciences and humanities, and has no program to fund graduate students at the Masters' level. There is some speculation that with funding applications on the rise, the percentage of applicants receiving SSHRC grants will drop, despite the modest funding increase contained in this year's budget. Conversely, NSERC is able to fund over 17% of graduate students, and not only does the council provide grants to Masters students, but they also have two programs to fund select research at the undergraduate level.

Students in the social sciences and humanities make up 54% of graduate students, yet the federal government continues to undervalue the research done in those fields. Dr. Robert Allen at the University of British Columbia has demonstrated that the demand for humanities graduates has actually outstripped that of science or engineering graduates. The critical thinking skills fostered in a liberal education are consistently celebrated by the high-tech sector. The Canadian Federation of Students will continue to lobby for public funding for research that reflects the interests of all students and the real demands of the labour market.

Canada Study Grant

The 2001 budget increased the maximum disbursement for students with disabilities under the Canada Study Grant from \$5,000 to \$8,000. In cases of exceptional need for costs related to a disability, a new supplementary grant of \$2,000 was introduced.

The Federation is pleased with the decision to increase non-repayable assistance to students with disabilities, although some concerns linger. Frank Smith, coordinator of the National Educational Association of Disabled Students (NEADS), believes that promoting the increase, as well as the program, will be crucial to making the investment worthwhile for students with disabilities. Currently, only about 4,500 students with disabilities take advantage of the Canada Study Grant.

Canada Health and Social Transfer (CHST)

Transfer payments to the provinces through the Canada Health and Social Transfer (CHST) will increase by \$2.5 billion for the 2002 year. This investment was announced in the fall 2000 "mini-budget", and was only re-announced in the 2001 budget. According to the Minister of Finance, Paul Martin, this increase is earmarked exclusively for health care.

The CHST represents the vehicle through which the federal government helps fund social programs administered by the provinces (health care, post secondary education, social assistance). Since 1992, federal cash transfers to the provinces for post secondary education have dropped from \$2.9 billion to \$1.6 billion. The cumulative effect of these cuts is that approximately \$5.2 billion has been taken from the public university and college system. At this point, the Federation estimates that it would take an investment of \$2.5 billion to return to 1993 funding levels for post secondary education alone.

Although transfer payments to the provinces are the most effective and stable way for the federal government to fund social programs, the 1995 decision to alter the structure of transfers to the provinces from financing for specific programs to a block model has hurt post secondary education. In the block funding of the CHST, a single lump sum is transferred to provinces for social programs. As a result, there is no guaranteed minimum amount of federal dollars to be spent on post secondary education, eroding the possibility of any national standards or accountability for federal spending. The Federation has long advocated for national standards for quality, accessibility, and mobility. This goal can only be realized if the federal government moves to negotiate a new framework with the provinces to ensure a guaranteed level of funding for post secondary education within transfer payments.

Tax Cuts

The 2001 budget re-affirmed commitments to the deepest income tax cuts in Canadian history. In the year 2002 alone, Paul Martin's tax cuts will cost the federal government 20 billion dollars (\$19,900,000,000). That is enough money to eliminate tuition fees for every college and university student in Canada four times over.

This tax cut, combined with other recent federal policy initiatives regarding taxation, underscores the federal government's willingness to prioritize the demands of wealthy Canadians and large corporations over social programs that most Canadians rely upon. For example, in 1999, the federal government eliminated the 3% surtax for people earning incomes over \$250,000. This policy cost the government \$1.15 billion in lost revenue. In the same year, 90,415 corporations in Canada paid no income tax whatsoever. Statistics Canada shows that the combined profits of these corporations was over \$18.5 trillion.

There is no evidence to suggest that middle and lower income Canadians benefit in the long-term from even the most aggressive tax cuts. Increased user fees for education or health care wipe out any gains from tax cuts. Even recent tax credits and exemptions for students do not address the problem. Although these measures technically save students modest amounts of money, many students' income is so low that the credits go unused. In addition, tax breaks that offer relief at the end of the year ("back-end") provide no improvement for front-end accessibility. Students who are unable to afford high tuition fees will not even have the opportunity benefit from credits and exemptions on the back-end.

Student Debt Reduction Program

Despite an appeal from the Standing Committee on Finance to review the excessively strict eligibility requirements for the Canada Student Loan Debt Reduction Program, the federal government opted to ignore student debt once more.

The program, introduced in the 1998 so-called "Education Budget", pays down a portion of a student's debt if it exceeds a certain portion of net income. Under existing eligibility tables, less than one tenth of 1% of those repaying student loans are eligible. In 1998/99, for example, of over 1 million loans in repayment, only 44 applicants received relief under this program.

Since 1998, the federal government has touted the program as the centerpiece of its response to the student debt crisis. However, the Federation has been unrelenting in criticizing this program and pointing out that the number of students actually benefiting from

the program is statistically negligible. As a measure to ease the student debt crisis, then, the effect of the program has been close to zero.

No development on Skills Agenda

"When times are tough and people are hurting, we must provide every opportunity for Canadians to upgrade their skills."

-Paul Martin, 2001 Budget Speech, December 10, 2001

A key component of the 2001 Speech from the Throne was the federal government's expressed commitment to a national skills agenda. The rhetoric of the throne speech was not matched by any substantial action in this year's budget.

At the National Roundtable on Skills and Learning hosted by Human Resources Development Minister Jane Stewart in March 2001, the Federation stressed that the federal government had a central role to play in funding and administering a national skills strategy. It was also emphasized that universal access to skills and training must form the foundation of any skills agenda. Access to training is currently a patchwork of inadequate programs that rely heavily on the substandard and expensive services offered by the private sector.

The Federation's submission to the Finance Committee contains a recommendation to implement a training leave model similar to that in the European Union. Workers in need of retraining would be eligible for paid leave to be funded through the Employment Insurance program. The Federation also suggests that needs-based grants should play a key role in guaranteeing financial assistance for those in need of skills development.

Individual Learning Accounts

The 2001 federal budget may have marked the death knell for proposals to introduce a variation of Britain's Individual Learning Accounts. Learning Accounts operate similar to Registered Education Savings Plans in that they rely on an individual's ability to save money. By emphasizing individual wealth, these Accounts would not meet the needs of most unemployed workers, thus not meeting the needs of Canadians most in need of retraining. The Federation will continue to fight the implementation of such a flawed approach to skills training.