

# 2004-2005 Federal Budget

## Introduction

Many of the headlines following the tabling of the 2004 federal budget declared that it contained a long list of initiatives to assist low-income families afford post-secondary education. Indeed, Paul Martin's first budget as Prime Minister did contain more new programs for students than usual; however, a serious flaw underlies all of the proposed programs. The absence of any commitment to restore federal funding to the provinces will create more pressure to increase tuition fees. The modest effect of measures in the budget, such as the low-income grants and the federal Registered Education Savings Plan contributions ("Learning Bond"), will be immediately negated by tuition fee hikes.

## Canada Student Loans Program

### Loan Limits

Prime Minister Paul Martin will push 185,000 students deeper into debt by increasing the Canada Student Loan ceiling from \$9,350 to almost \$12,000 in 2005.

Decreased federal funding combined with the elimination of most provincial grants programs during the 1990s and the subsequent failure of the Millennium Scholarship Foundation to improve access has forced many students to rely on mortgage-sized loans to cover costs, especially skyrocketing tuition fees. In most regions, one year of post-secondary education costs well above \$10,000. The lack of grants for students who require the most financial assistance has led to considerable amounts of unmet financial need. Rather than driving students deeper into debt with more loans, a grant to meet the unmet financial need above the existing \$9,350 loan ceiling would have been one positive step towards stemming increasing debt loads.

## Students with Disabilities

Students with disabilities will be eligible for a new grant that will be disbursed in advance of any Canada Student Loans. The value of the new grant will be the lesser of \$2,000 or the federal portion (60 percent) of a student's assessed financial need. This grant will replace an existing grant that was awarded only after a student's financial need exceeded the loan ceiling. In other words, the new grant will replace the first \$2,000 of a Canada Student Loan for students with disabilities, rather than topping up a \$9,350 loan, as the previous grant did. In essence, those most in need of more assistance will see no reduction in unmet financial need. Approximately 6,000 students will receive this grant in 2005.

## Debt Reduction in Repayment

In 1998, the federal government introduced the Debt Reduction in Repayment (DRR) program, promising that 12,000 students per year would see their student debt reduced.

To date, this has been a program in name only. An average of 500 students each year have received DRR—less than five percent of its promised target. In the 2003 federal budget, the federal government moved to amend the eligibility requirements such that after graduates in repayment exhaust all five years of their Interest Relief, they can move seamlessly towards debt reduction.

The 2004 federal budget aims to increase the maximum amount forgiven from \$20,000 to \$26,000. Under the revised program, borrowers can qualify for a debt reduction of \$10,000 in their fifth year of repayment, and re-apply for subsequent reductions of \$10,000 one year later, and \$6,000 after another year. However, it remains to be seen whether or not the 2003 changes to eligibility criteria will result in increased access to DRR.

## Interest Relief

Interest Relief is a program available to Canada Student Loan Program borrowers based on their debt size and net income.

The federal government pays the interest accruing on the loan for up to 54 months. The 2004 budget amends the annual income eligibility threshold upwards by five percent, thereby increasing the number of borrowers who qualify.

## Parental Contributions

The 2004 budget included modest changes to the Canada Student Loan needs-assessment criteria. Exceedingly high levels of required parental contributions from families in the \$60,000 to \$100,000 income range have resulted in many students having unmet financial need because of insufficient contributions from their parents and insufficient loan amounts from the federal government.

The budget will slightly reduce the expected parental contribution amounts for families in this income range allowing students to borrow up to \$2,550 more per year.

## First Year Grant

With the deficiencies in the Millennium Scholarships exposed, the federal government has been under pressure to review its approach to the administration of grants. It is the Federation's position that all new grants should be administered through the Canada Student Loans Program to avoid the displacement occurring with Millennium Scholarships.

Starting in 2005-2006, students from low-income families (annual incomes below \$35,000) will be eligible to receive a grant equal to the lesser value of one-half of base tuition fees or \$3,000.

Although this program is a recognition by the federal government that grants are a key strategy for improving access to low-income students, the 2004 budget took no steps to restore funding to the provinces in order to freeze or reduce tuition fees. In fact, many provincial governments will likely feel more comfortable increasing tuition fees with the knowledge that the federal government will be covering half of the increase for low-income students. Thus, without a plan to address tuition fees through core funding to accompany

the first year grants, the federal government may actually trigger larger tuition fee increases.

## Registered Education Savings Plans

### Learning Bond

The federal government announced that \$325 million will be spent each year on attempting to address what the federal government *perceives* as a motivational problem amongst low-income families to save for their children's post-secondary education.

The notion that poverty and lack of savings for post-secondary education are the result of insufficient advertising, rather than the reality of other more immediate expenses (i.e. food, shelter), is dubious at best. As with the public relations machine behind the Millennium Scholarships, the creators of the Learning Bond have placed a premium on optics, but have very little idea about its ability (or inability) to close the participation gap.

Families of children born after 2003, with incomes below \$35,000, will receive \$500 towards the establishment of an RESP and \$100 each subsequent year the family remains "low-income". By the federal government's own estimates, the maximum benefit of the Learning Bond/RESP program will be approximately \$3,000 in 2004 dollars. In other words, the most a low-income family can hope for from the Learning Bonds is 75 percent of one year of tuition fees. Moreover, the "savings" of a Learning Bond will reduce family's eligibility for other needs-based assistance.

The idea of a "Learning Bond" first surfaced in the Speech from the Throne in February 2004. To compensate for the failure of low-income Canadians to contribute to Registered Education Savings Plans (RESPs), the proposed Bond would be a federal contribution to RESPs for low-income families with newborns.

Immediately following the Speech, the Federation convened a meeting with the National Anti-Poverty Organisation, the National Organisation of Immigrant and

Visible Minority Women of Canada, the Canadian Council on Social Development, and Low-Income Families Together to discuss the implications of the Bond. Participant organisations were unanimous in their opposition to the proposal to increase federal

spending on flawed savings programs.

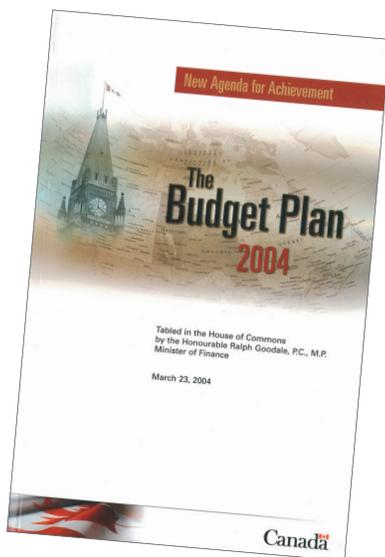
On February 17, 2004, a letter signed by anti-poverty organisations, the Federation, and the Canadian Association of University Teachers was sent to the Minister of Human Resources and Skills Development Joe Volpe outlining the flaws of the Learning

Bond as a solution to access for low-income families. A copy of the letter was also sent to Finance Minister Ralph Goodale and all of the members of the Liberal Caucus Committee on Post-secondary Education.

## Canada Education Savings Grant Matching Rate

The Canada Education Savings Grant (CESG) is a publicly funded grant to match personal contributions to a Registered Education Savings Plan. Currently, the federal government adds 20 percent to an individual's contribution to an RESP (up to \$400 per year). The CESG, a program that cost the federal government more than \$500 million in 2003, disproportionately benefits wealthier Canadians.

The 2004 budget increases the matching rate for low-income contributors' (annual income of less than \$35,000) RESPs from 20 percent to 40 percent. For those families earning between \$35,000 and \$70,000, the matching rate will increase from 20 to 30 percent. Each new matching rate will only apply to the first \$500 spent on an RESP.



## Aboriginal Students

### Continuation of the Aboriginal Human Resources Development Strategy

Annual funding through Indian and Northern Affairs Canada for Aboriginal post-secondary education declined by almost \$14 million between 1998 and 2002, when adjusting for inflation. The 2004 federal budget contains no new funding to support Aboriginal post-secondary education, only a continuation of the Aboriginal Human Resources Development Strategy that had been slated to end on March 31, 2004.

Moreover, there is very little in the budget whatsoever that addresses the other social issues facing Aboriginal communities. Without funding to improve housing, day-care, and primary and secondary education, it is unlikely that Aboriginal participation rates in post-secondary education can be appreciably increased.

## University Research

### Granting Councils

The 2004 budget will add \$90 million to the annual budgets of the three granting councils; however, the increases will continue to reflect the federal government's reduced emphasis on research in the humanities and social sciences. The new \$90 million will be allocated as follows:

- \$39 million for the Canadian Institutes for Health Research (total budget is \$654 million)
- \$39 million for the Natural Sciences and Engineering Research Council (total budget is \$654 million)
- \$12 million for the Social Sciences and Humanities Research Council (total budget is \$192 million)

Although between 55 and 60 percent of students and faculty in Canada fall within the Social Sciences and Humanities Research Council's (SSHRC) mandate, it is allocated only 13 percent of the total funding for the three granting councils. As a result of persistent underfunding, over 40 percent of applications

that were recommended to receive SSHRC standard research grants in 2002 could not be funded (latest data).

## **Commercialisation**

The 2004 budget places a strong emphasis on the commercialisation of university research. In fact, the federal government has directed the three granting councils to dramatically skew their peer-reviewed grants away from basic research and towards research that will bring new products to market: “the granting councils are expected to triple their annual investments in programs directly supporting commercialisation over the next three years.”

To achieve this goal of privatising the results from public research, the budget establishes a new pilot project to “help accelerate the commercialisation of university-based research.” The project will allocate \$50 million over the next five years on a competitive basis to granting councils, research hospitals, or even consortia of research-intensive universities. Given that the goal is to boost commercialisation capacity, it is highly unlikely that the infrastructure needs for social science and humanities research will benefit at all from the fund.

## **Indirect Costs of University Research**

The 2003 budget established an annual program to aid in funding 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 2004 budget will increase the program’s annual funding from \$225 million to \$245 million.

When the program was introduced in the 2003 federal budget, the Federation expressed concern that continued funding for indirect costs of research may be contingent on the increased commercialisation of publicly-funded research. The 2003 budget plan stated explicitly that the growth of commercialisation

in university research will be used to measure the success of the program when it is reviewed in 2006. The 2004 budget echoes this fixation on commercialisation outcomes: “It is also expected that institutions will use the additional funding to enhance the commercialisation of research discoveries,” (page 136).

## **Conclusion**

Although seemingly a budget with an eye to addressing access to education for low-income Canadians, the new programs point to a fundamental weakness in Paul Martin’s understanding of the forces at work that prevent low-income Canadians from gaining access to post-secondary education. Inadequate federal funding has led to skyrocketing tuition fees and the elimination of provincial grants in most jurisdictions. The problem is not a motivational deficit, as the Learning Bond and CESG savings “incentives” suggest. The problem is that the federal government has retreated from its traditional role in promoting access to post-secondary education by shifting a greater burden of the cost to the individual. Unless this trend is reversed through increased federal funding to the provinces and a comprehensive system of grants, no savings plan will be enough to keep up with deregulated tuition fees.