

2006-2007 Federal Budget

Introduction

The Conservative government's first federal budget introduces a number of initiatives to restructure the role of the federal government vis-à-vis the provinces, to provide social benefits through the tax system, and to signal that it is prepared to reduce the size and scope of the federal government.

The tax cuts and debt reduction payments in the 2006 budget exceed social program investment by a two-to-one margin over the next two years. Furthermore, the government has announced its intention to cut over one billion dollars from operating departments in the coming year, reinforcing the truism that "tax cuts aren't free."

The budget contained more tax cuts than most pundits were predicting. A total of more than \$20 billion was spent on cutting taxes, including eliminating capital taxes on corporations and reducing the Goods and Services Tax. Yet most Canadians will not see the lion's share of the tax "relief" proposed by Finance Minister Jim Flaherty. An individual earning \$30,000 per year will pay approximately \$300 less in tax, whereas individuals earning over \$100,000 will pocket up to \$1,987.

A detailed overview of what has been proposed by social justice groups, including the Federation, for a socially-responsible and fiscally-prudent federal budget is available in the Canadian Centre for Policy Alternatives' 2006 Alternative Federal Budget at www.policyalternatives.ca.

Rethinking Federal-Provincial Relations

The associated 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", the government argues that federal and provincial roles should be better defined, as overlapping jurisdictions results in confusion.

In a move to rebalance federal-provincial relations, the new government suggests that previous ones have been too intrusive in areas of provincial responsibility (e.g. social programs, education) and did not focus enough spending in areas of core federal jurisdiction (e.g. defence, security, immigration).

Over the next year, the federal government will be reshaping its role in post-secondary education vis-à-vis the provinces:

"In relation to post-secondary education and training, the Minister of Human Resources and Social Development will also undertake consultations with her provincial and territorial counterparts with a view to identifying

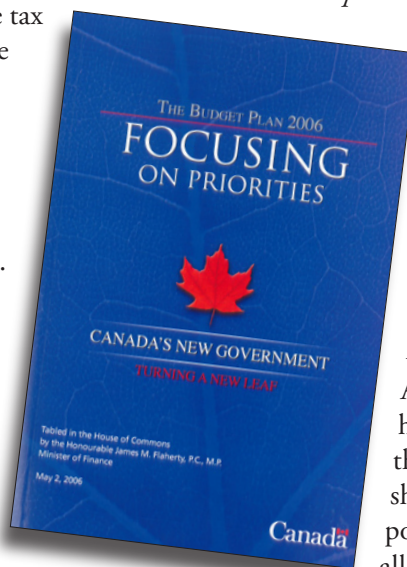
appropriate roles and responsibilities for each order of government in support of post-secondary education and training. These consultations will serve as the basis for the development, within the next year, of proposals by the Government for long-term federal support for these priorities."

Already this consultative note has led some pundits to suggest that the federal government should decentralise its role in post-secondary education and allow the provinces to experiment with such regressive initiatives as

Income Contingent Student Loan Repayment schemes. It is very likely that, given the overall tone of this budget, the federal government will be reluctant to institute any kind of national standards to improve access to post-secondary education.

Federal Transfer Payments and Core Funding

Despite massive federal surpluses over the past few years and another surplus this year, Budget 2006 does not increase core funding for post-secondary education. Although it is difficult to calculate precisely the amount cut from transfers for post-secondary education during the past decade, estimates by provincial Premiers peg the annual shortfall at \$4.9



billion. These cuts created a climate in which tuition fees more than doubled in all provinces except Québec. As a direct result, accessibility to universities and colleges has been severely compromised and quality declined.

Leading up to the 2006 federal budget, the government was forecasting a surplus of \$17.4 billion in 2005–06 and \$17.8 billion for 2006–07. However, tax cuts reduced the anticipated surpluses to \$5 billion and \$600 million respectively, and the Conservatives have committed to using the leftover surplus for national debt reduction.

Thus, more money will be allocated to paying down the national debt—which is already one of the lowest in the world—rather than to restoring funding to post-secondary education. The Conservatives also failed to create a dedicated transfer payment for post-secondary education, breaking their promise from the 2006 federal election.

C-48: Liberal/NDP 2005 Budget Amendment

In the previous federal parliament, the New Democrats brokered a deal with the governing Liberals to amend the 2005 federal budget to add \$1.5 billion for post-secondary education.

Although the Conservatives' 2006 budget claims to uphold that commitment, a closer look reveals a betrayal of the spirit of Bill C-48. Whereas the Liberal/NDP deal reads as follows: "for supporting training programs and enhancing access to post-secondary 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 budget removes the heart of C-48: 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. It also may be part of a larger move to focus the federal role in post-secondary education toward research and development, leaving issues of access to the provincial governments. Furthermore, money will

only flow under the auspices of Bill C-48 in the event of a federal surplus of at least \$3 billion.

The staggering level of tax cuts in the 2006 federal budget leaves very little room for unforeseen changes in the economy. According to the *Globe and Mail*, even a one percent rise in interest rates could put the federal government into a deficit position because of the massive reduction in government revenue due to the 2006 tax cuts.

Taxation

The 2006 budget instituted over two dozen tax cuts that, in the end, will do very little to benefit post-secondary students. The government will forfeit resources that could have easily been directed toward universities and colleges to reduce tuition fees.

The Conservative Party's 2006 federal election platform was thin on policy ideas for student financial assistance. Only minor tax changes were proposed, and students were promised nothing in the way of up-front assistance. In that vein, the 2006 federal budget lives up to its minimal expectations.

The federal budget eliminates the taxation of scholarships/bursaries/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 only applies to graduate student research grants and very exceptional need and/or merit grant recipients.

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. To make matters worse, the Conservative 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 by the previous government.

Stephen Harper's first budget also introduces a non-refundable income tax credit of \$65 per month for full-time students (\$20 for part-time students) to defray the cost of textbooks. This tax credit will be available to all students, or transferable to parents, regardless of financial need. 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 non-refundable tax credits.

Although the Liberals practically invented tax credits as a form of student financial aid while in government, Liberal Human Resources Critic Geoff Regan said in a news release before the federal budget: "tax credits and exemptions aren't the right approach to student assistance because they don't help lower and middle income students with tuition costs up front." He added that loan increases for middle-income students will "likely be eaten up by tuition hikes."

The Federation welcomes the revised approach taken by the critic for the official opposition, and will work with all opposition parties to propose alternatives to the insufficient measures proposed in Budget 2006.

The Goods and Services Tax Cut

The Conservatives promised to cut the GST in the federal election campaign and this budget begins that process. The budget reduces the rate of the GST to six percent from seven percent effective July

1, 2006. In 2006-07, the cost of the GST cut will be \$3.5 billion and \$5.2 billion in 2007-08.

University Research

The 2006 federal budget has been characterised as a "bad news budget" by the university research community. With the exception of university presidents, university research organisations,

including the Canadian Consortium for Research and the Canadian Association of University Teachers, harshly criticised the budget.

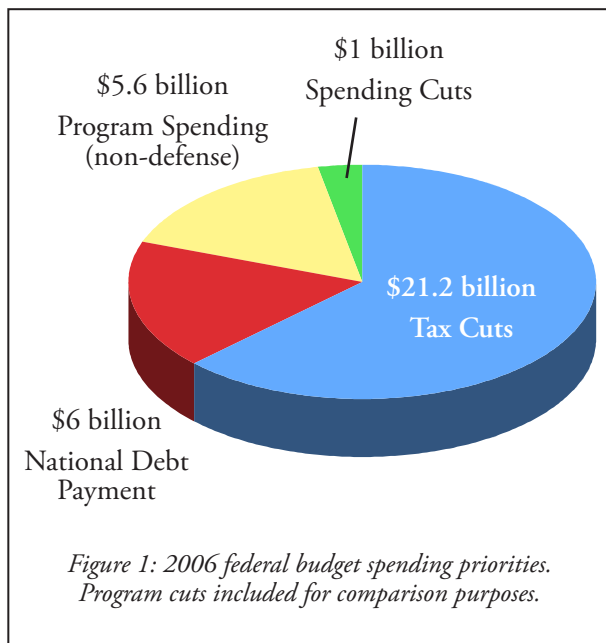
The federal budget increases the base budgets of the research granting councils—NSERC and SSHRC—by only two percent. With inflation, this constitutes a cut to federally-sponsored research.

The federal budget expands the annual funding for the indirect

costs of research for the fourth year in a row. The program will grow by more than fifteen percent in 2006 to \$300 million annually. Regrettably, university presidents have not found a way to use this funding to the advantage of their institutions to relieve the upward pressure on tuition fees.

Of the \$100 million being directed toward the federal research agencies, the Social Sciences and Humanities Research Council received only \$6 million. By contrast, \$60 million is allocated to the Canadian Foundation for Innovation and the Indirect Cost of Research Program.

Perhaps most noteworthy under the research section of the federal budget is the pledge to conduct a "value for money" review of the granting council's activities. This review also must be considered in the context of the latest report from the Expert Panel of the Commercialisation of University Research, which argues for new research commercialisation



initiatives such as the creation of a commercialisation advisory body, student fellowship programs oriented to commercialization, and the development of a “commercialisation superfund”. As members of the official opposition, Conservative MPs regularly belittled many university research projects, often based only on a project’s title. The Federation will work closely with its coalition partners to ensure that the government’s response to this report does not serve to attack basic research.

Canada Student Loans Program

No fundamental changes to the Canada Student Loans Program were included in the federal budget.

A minor change was made to the Canada Student Loans Program needs-assessment by lowering the “expected parental contributions.” As a result, it is easier for students from some middle-income households to qualify for a CSL. This is a positive change, especially since it might make the difference for some students who could not otherwise raise the money to participate in post-secondary education.

Unlike increasing loan maximums, this change will not, for the most part, drive the most indebted students deeper into debt.

Conclusion

This budget clearly signals that the Conservatives want to take a different approach to governing, one that withdraws the federal government from areas of joint responsibility with the provinces. In fact, the tax cuts introduced in the 2006 federal budget are so extensive that there is a danger that the Conservative government will cut back program spending in the future, beyond the \$1 billion already announced, in order to maintain the tax cuts. Public remarks by the Prime Minister and Finance Minister emphasize that Canadians are supposedly “over taxed”, but they have rarely, if ever, shown the same zeal for improving access to post-secondary education. Such a fixation on cutting taxes at all costs may be an ominous sign of things to come for students.