Canadian Federation of Students

2002 submission to

THE HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE

Introduction

The growth of the Canadian economy over the past year has created unique challenges and opportunities. The Canadian economy continues to outperform the US economy and most European economies. Canada's Gross Domestic Product (GDP) continues to climb and job growth remains strong. Despite these promising developments, Canada is also growing in another less desirable area, what Judith Maxwell referred to as a social deficit. This contention is backed by an array of troubling data. Take, for example, that in 2001, the Canadian Centre for Policy Alternatives (CCPA) reported that between 1989 and 1998 the average after tax income of the poorest 20% Canadians dropped by 5.2%, while the wealthiest 20% saw their incomes rise by 6.6%. The same study found also that in 1998 the wealthiest 20% earned 45.2% of all market income, against only 3.1% for the bottom 20%. These numbers confirm an earlier study by the Canadian Centre for Social Development's (CCSD). According to the CCSD's Canadian Fact Book on Poverty there are 1.3 million more poor households in Canada than there were 20 years ago. Between 1981 and 1997, the rate of poverty among young families more than doubled from 21.7 per cent and 46.1 per cent.

In examining the growing gulf between the prosperous and the desperate in Canada, it is clear that one of the key dividing lines is access to education. Throughout Canadian history, no other institution has been more successful in expanding new opportunities to Canadians. As the Canadian workforce adjusts to the realities of the new economy this point becomes even more compelling. Human Resources Development Canada (HRDC) reports that by 2003 close to 75% of all new jobs will require three years of post-secondary education.

Despite these difficult challenges Canadian colleges and universities have seen a dramatic drop in public funding. As a portion of GDP, spending on post-secondary is education down by over 50% since the 1980s. Public spending on higher education was cut drastically from 1991/92 to 1997/98, and despite some restoration of funding since 1998, real per capita funding remains at least 17% lower than it was a decade ago. The Canadian Association of University Teachers estimates that an immediate investment of $2 billion would be required just to restore college and university operating funds to the level that they were at the beginning of the 1990s.

In the following brief we will document the policy effects of these cuts. In addition, we will offer a critical analysis of the largely patchwork policy initiatives for post-secondary education that the federal government has taken in recent budgets. Though the past three budgets have announced a variety of new policy initiatives, we will argue in this brief that these measures have, for the most part, been cosmetic. In addition, we will offer a critique of the federal government's recent policy of using the tax system as funding vehicle for post-secondary education.

The brief will be divided in four sections. The first section will respond to the federal government's recent policy paper on innovation entitled *Achieving Excellence*. The second section will offer a detailed assessment of *Knowledge Matters*. The third section will offer several recommendations on the Canada Student Loan Program. The final section will be a critical assessment of the recent move toward tax measure as a policy solution to the challenge of ensuring the accessibility and affordability of Canadian colleges and universities.

Section I – Innovation for Whom? Canada's Innovation Strategy

On March 14, 2000, a letter with the signatures of 1,400 of Canada's most prominent scientists and academics was presented to Prime Minister Jean Chrétien. The letter rejected the conclusions of the report of the Expert Panel on the Commercialisation of University Research. The signatories consisted of eminent researchers in every academic discipline. The sweeping nature of the report's commercially oriented recommendations elicited this unprecedented response. Among other suggestions, the Panel concluded that "the commercialisation of research" be added as a fourth mandate to the mission statement of universities.

Unfortunately, much of the tone and substance of the Expert Panel's report is repeated in Achieving Excellence, thus making the Strategy is a thinly veiled reassertion of the previously rejected political objectives. For example, Achieving Excellence calls on the federal government to: "Support academic institutions in identifying intellectual property with commercial potential and forging partnerships with the private sector to commercialise research results," (page 52). Such a statement could have been lifted directly from the Expert Panel's executive summary. However, Achieving Excellence couples alarming passages like this one with many laudable targets, such as the doubling of Masters and PhD fellowships. Despite clear allegiances with the vision of the Expert Panel's report, Achieving Excellence is a more balanced document and presents several promising policy ideals. This brief will highlight the inadequacies of the papers, as well as provide productive suggestions for the implementation of an Innovation Strategy where "innovation" is in the public interest.

At its core, the motivation for commercialising of university research is to blur the vital distinctions between "public" and "private." Universities and colleges in Canada have evolved to function, albeit imperfectly, as public institutions. That is, they are funded by the public's collective resources via a progressive system of taxation. By definition, then, such institutions should serve the public interest. This public interest can be defined through three broad functions: education, community service, and research. In particular, university research serves to pursue and publicly disseminate knowledge. Industry, government, and other researchers may take this knowledge and build upon it for their own ends, but what characterises the university's social product (or simply good science) is the objectivity of the process.

The public mandate stands in stark contrast to private sector interests. By definition, corporations are ultimately accountable to shareholders. The short-term solvency of the business drives a preoccupation with short-term gains. This motive extends to the expectations of partnerships in university research. When private interests/business ethics are applied to science in the institutional setting, academic freedom is in peril in three specific ways:

a. Research Agenda

"The biotech revolution itself would not have happened had the whole thing been left up to industry,"
–Paul Berg, Nobel Prize winning biochemist, a pioneer in the field of DNA splicing

Traditionally, university and college research has enjoyed the freedom to investigate that which no market-driven laboratory would have an interest. Basic/exploratory research, research on health issues in developing nations, and research on poverty are all examples of projects that serve the public interest, but have very little immediate commercial value. Yet with the proliferation of public-private partnerships in research, the research agenda is increasingly determined by the short-sighted market criteria favoured by industry. For the less commercially oriented fields, this means less funding and a slow decline. For the potentially lucrative fields, corporate funding means corporate interests steer the aims and goals of the projects. What gets studied, what questions are asked (or not asked), and who sees the results are not determined by disinterested inquiry for the public interest, but rather what could yield maximum return for private investors.

Federal government research policy has promoted this model of university research in recent years. Worse, Industry Canada has appropriated the term "innovation" to narrowly describe research initiatives that accomplish commercialisation. Nowhere has this deliberate shift from the public interest to the private sector's interest been more obvious than in the asymmetrical investments in the federal granting councils. The Canada Foundation for Innovation (CFI) has received $1.9 billion dollars since 1998 to fund research projects that require a private sector partner. Compare this to the $37 million of new funding for the Social Science and Humanities Research Council (SSHRC) in the same time period. The trend is clear: private industry research is at the forefront of public spending on research. At a time when per capita spending on post-secondary education is at its lowest in Canadian history, private industry research has seen a boom in public funding.

b. Publication Interference

When university research funding policy merges with commercial interests (“innovation” as defined by the federal government), the scientific principles of dissemination and sharing of knowledge can, and have been, threatened. In fact, the entire notion of proprietary information, “trade secrets” achieved through the commercialisation of research, runs contrary to the advancement of the common body of knowledge that underwrites science. This tension between private gain and the public sharing of research results has led to a series of disturbing cases in which public dissemination has been sacrificed for proprietary concerns. These sacrifices range from delays in publishing to the active suppression of taxpayer funded research results.

The delay in the publication of results that is required by many industry partners poses several problems. In some cases, graduate students cannot reveal the research for their Masters or PhD theses until their corporate sponsor has successfully filed a patent. In cases where researchers are trying to develop medical treatments for illness, a publication ban of twelve months can prevent treatments from becoming widely available to the people who need them. A 1994 survey of life science university research found that 58% of industry sponsors required a publication delay of at least six months.

As university-industry ties become more intimate and the boundary between public research and private research blurs, the future security of private sector sponsors become more dependant on the results of “their” university research. In cases where the results are not as encouraging as expected, or even detrimental to the corporate sponsor’s economic interests, many researchers experience subtle or even direct pressure to suppress their findings.

In the last two years, there have been a number of high-profile in which principled university researchers have had to resist intimidation and legal threats to publish the results of their research. The cases of Drs. Olivieri, Kern, Dong, and Healy serve as disturbing reminders of the perils of industry sponsored research. Of course, these examples are only the cases where researchers were successful in gaining some degree of support or attention.

- Nancy Olivieri, M.D., a researcher at the University of Toronto and the Hospital for Sick Children, was contracted by Apotex, Canada’s largest drug manufacturer and one of the University of Toronto’s most important donors, to test a new drug for the blood disorder thalassemia. During the course of her research Olivieri discovered several disturbing side effects of the drug and recommended that the trails be discontinued, or at least suspended, until the risk to her patients could be assessed. When Olivieri sought to publish her results and alert her patients, she was threatened with legal action and a smear campaign was organized against her.

  What is most disturbing and surprising about Dr. Olivieri’s case is not the behaviour of the drug company but the behaviour of the university. Instead of supporting Olivieri in this important case of public safety versus corporate profit the university attempted to fire Olivieri and did everything it could to mollify Apotex for fear of losing funding from this important donor. University of Toronto President Robert Pritchard went so far as to write a letter to the federal government in support of Apotex’s call for changes to patent legislation. Throughout the entire controversy, the University of Toronto was involved in sensitive negotiations to establish a $25 million partnership with Apotex under the auspices of the CFI.

- David Kern, M.D., an associate professor of medicine at Brown University (U.S.), had his full-time research position eliminated at one of the medical school’s affiliated hospitals in Pawtucket, Rhode Island. The elimination followed protests from a local textile producer/university donor Microfibres Inc. The company claimed that if Kern published findings describing the lung disease that Microfibres’ employees were contracting, he would be revealing “trade secrets”.

- At the University of California-San Francisco, Dr. Betty Dong was threatened with litigation if she published findings that concluded that her corporate sponsor Knoll Pharmaceuticals’ drug was no more effective than the generic alternative.

- Dr. David Healy is an internationally renowned psychiatric researcher. He was offered a position that he accepted with the University of Toronto. Shortly after his appointment, Healy presented at a conference where he described a disturbing lack of research to investigate the potential relationship between Prozac and suicide rates. He made his remarks in the context of a paper that raised serious concerns about the ability of large pharmaceutical companies to drive the national research agenda. The University of Toronto immediately withdrew its offer of employment to Healy. Eli Lilly, the company that manufactures Prozac, is a large donor to the University of Toronto.

c. Manipulation of Results

The most extreme form of undue influence related to corporate partnerships is the altering of research data for commercial gain. It is important to stress that manipulation of data does not need to necessarily stem from a conscious misrepresentation of research results. Certain methodologies can be designed to elicit certain results. In a study conducted by Mildred Cho at Standford's Centre for Biomedical Ethics, 79 percent of non-affiliated research projects reported favourably on the drugs they were researching, compared to 98 percent of researchers who were industry-sponsored. The push to commercialise can also create pressures internal to the university that manufactures a vested interest in the success of commercial spin-offs. In 1999, Sheldon Krimsky of Tufts University found that out of 800 scientific papers he analysed, one third of the authors had a significant financial interest in the outcome of their research.

In most cases, the relationship between researcher and industry sponsor is based on unequal relations of power. Future funding from sponsors may be contingent upon short-term commercialisable outcomes. Thanos Mergoupis at the London School of Economics lost his job and a £250,000 contract when the World Travel and Tourism Council saw the interim report on the research they were funding. Although this case does not represent a case of data manipulation, clearly there is intense pressure on researchers to give the most generous interpretation possible. Their careers may depend on it.

Many cases of manipulation are more direct. Many industry partners attempt to exercise editorial control over the manuscript before publication. In 1996 Sandoz Corp. removed passages from a draft article that it was sponsoring, prompting the four researchers involved to quit and write a letter to the Journal of the American Medical Association outlining the threat to academic freedom such meddling poses.[1] Other researchers capitulate to the pressure and delete vital information. A study found that 35% of researchers in engineering research centres would let industry partners delete passages before publishing the results.[2]

Achieving Excellence outlines a need to "double the number of Master's and Doctoral fellowships and scholarships awarded by the federal granting councils," (page 60). The Canadian Federation of Students is in full support of increased support for graduate student research, if this funding is administered through the three granting councils. Adequately funded graduate students will be essential to developing high quality teaching researchers to fill vacancies created by faculty retirement over the next decade.

However, federal government policy on graduate student funding has created massive gaps in available support. Years of under-funding the Social Science and Humanities Research Council (SSHRC) led to the cancellation of the funding for Masters students. Masters students make up more than 62 percent of the graduate student population in Canada, yet they receive zero percent of SSHRC's resources directly.

A hidden cost associated with this absence of federal government support is the cost to faculty. Already thin resources of arts and social science faculty are stretched even thinner by the additional stress of funding students. Since no Masters students receive federal support for their research and slightly more than a third of PhD students secure grants, many graduate students rely on small portions of a faculty member's research grant as their only income. SSHRC's grants to faculty only fund about 25% of the eligible community, and are more often shared between researchers.[3] The additional strain of a large pool of unfunded graduate students makes the federal government's humanities funding increasingly scarce.

Federal funding cuts to transfer payments in the 1990s have limited universities' ability to provide proper institutional support for researchers. The recent infusion of infrastructure funding through the so-called "indirect costs" of research only begins to address the problems associated with shrinking operating budgets. New federal government support in the form of research grants does very little to maintain and improve libraries and laboratories. Research funding must be coupled with a commitment to additional core funding to ensure that world-class research is not undone by fourth-rate facilities.

The Canadian Federation of Students recommends doubling the number of graduate research grants awarded through the federal granting councils. The new grants must be distributed in a manner that reflects the asymmetrical situation of graduate students in the arts and human sciences.

Achieving Excellence's stated goals for university participation in Canada's Innovation Strategy do not simply overlook the public interest; they contain the potential to undermine it. This brief contains descriptions of many cases where good science in the public interest has placed a distant second to the drive for profit. When this trade-off occurs at a business's own research facility, it is disturbing. When it happens at a publicly funded university or college, it is indefensible. Public research should never be placed in circumstances where private gain override established scientific tenets. Yet this is precisely the risk that the unbridled pressure to commercialise university research runs. When public research is put at risk, so too is the public interest, and institutions are no longer accountable to the Canadian public.

What about those scientists who have not come forward? In dealings with Drs. Olivieri and Healy, Canada's largest university sent a clear message to whistleblowers: your institution will not support you. Or perhaps more thematically: "the customer is always right."

Recommendation 1:
The Canadian Federation of Students recommends doubling the number of graduate research grants awarded through the federal granting councils. The new grants must be distributed in a manner that reflects the asymmetrical situation of graduate students in the arts and human sciences.

Recommendation 2:
The Canadian Federation of Students recommends that the Canada Foundation for Innovation drop the requirement for researchers to seek out matching funds.

Recommendation 3:
The Canadian Federation of Students recommends that the Social Sciences and Humanities Research Council budget be increased by $365 million by 2007-2008, with an immediate infusion of $97 million for the 2003-2004 year

Section II - Access Matters: Canada's Skills Agenda

In 2002 the government released Knowledge Matters the fulfillment of a commitment made in the 2001 throne speech to develop a comprehensive national skills strategy. To that end, the paper lays out the framework for federal government initiatives in skills and training. In what follows we will offer an assessment of the strategy and offer concrete recommendations to the committee to consider in the context of the skills agenda.

The gap between low and high income Canadians is widening and those Canadians most in need of skills and training are being denied access. Since 1990, tuition fees have increased by over 126% and most provincial governments have cut or eliminated grants and re-training programs. Between 1993 and 1998, 18-21 year olds from the wealthiest 25% of Canadian families were more than twice as likely to attend university as 18-21 year olds from families in the lowest income quartile. From 1990 to 1998 student debt increased from an average of $8000 to $25,000. If the federal government is committed to more than just the rhetoric of a skills agenda, the soaring cost of post-secondary education must be addressed.

In order to create a truly comprehensive, national system of highly accessible and quality post-secondary education the federal government must set the national standards. These standards should be modeled on the Canada Health Act and be designed to ensure that all Canadians have equal accessible quality public education. To that end, the Canadian Federation of Students calls on the federal government to enact a Post-Secondary Education Act.

Recommendation 4:
The Canadian Federation of Students recommends that the federal government enshrine a post-secondary education act that mirrors the principles of the Canada Health Act. Such an act would be designed to ensure that all Canadians have access to high quality, affordable post-secondary education.

Recommendation 5:
The Canadian Federation of Students recommends that the federal government restore the cuts made to the Canada Health and Social Transfer (CHST) during the 1990's.

Scrap the Millennium Scholarship Foundation and the Canada Education Savings Grant for RESP Program

The evidence is now overwhelming that high tuition fees and high student debt is choking off access for low income Canadians. Regrettably recent federal government policy initiatives have done little to address this problem. In fact several programs are actually exacerbating the problem of student debt and declining participation rates of low and middle-income students. Consider, for example, the Registered Education Savings Program (RESP) and the Millennium Scholarship Foundation. In the case of the RESP, new data conclusively demonstrates that the program is not promoting opportunity among those Canadians most at risk of being denied access to post-secondary education. In an April 2001 study, entitled Survey of Approaches to Educational Planning, researchers tracked attitudes toward saving for a child's post-secondary education as well as the actual saving families were able to accumulate. The study controlled for family income and parental educational attainment. The study found in those homes with a family income of less than $30,000, 80% of parents said they hope to save funds for a child's education. However, only 18.7% of those parents were actually able to save. In homes with family income of over $80,000 researchers found that 95% hoped to save for a child's education and that 62.6% were actually saving.

These numbers confirm the case put forward by the Canadian Federation of Students in earlier submissions to the Standing Committee on Finance. The RESP program has been shown to be a national system of grants for the wealthy; a social program funded by all Canadians designed to reward those with the means to save. The recent findings by Statistics Canada confirms this analysis and provides hard data to support the contention that the RESP and CESG programs are a regressive use of public funds. These programs are doing virtually nothing to assist those Canadian most in need of the skills and training offered by post-secondary education. RESPs merely expand the already existing gap in Canada between those who want to help a child attend post-secondary education and those who are actually able to help. It is perverse public policy to spend public funds on those who least need assistance while doing little or nothing to help those for whom post-secondary education remains only a dream.

The effect of the Millennium Scholarship Foundation has been even more fruitless. Announced in the 1998 "education" budget, the Millennium Scholarship Foundation was a belated acknowledgement by the federal government of the student debt crisis in Canada. In the face of average debt levels of $25,000 the Millennium Scholarship Foundation was to be the centrepiece of the federal government's student debt reduction strategy. At the time of its introduction, Finance Minister Paul Martin declared in the House of Commons that the Foundation would help those in greatest need and reduce average student debt by $12,000. However, three years after its implementation the Foundation has proved to be largely a public relations exercise that has led to no appreciable decrease in student debt.

The Foundation's mandate and terms of reference are contained in the 1998 Budget legislation. The Act spells out the governance of the Foundation as well as the framework through which scholarships are disbursed. In theory, the Foundation's job is to disburse $250 million annually in student financial assistance. However, the federal government chose to disperse the funds through existing provincial student assistance programs. Without any advanced consensus from the provinces about implementation, the hastily conceived structure of the Foundation made some provinces resentful participants.

The record of re-investment on the part of provincial governments has been spotty at best. The provinces signed agreements to re-invest the savings in augmentations to their existing student financial assistance programs; however the agreements were non-binding.

The Nova Scotia government simply ignored the agreement, consciously re-directing funds intended for students into other government revenues. In Ontario, where approximately 40% of the Foundation funds are transferred, the provincial government has directed less than 15% back into student financial assistance. Despite the misuse of Foundation funds by these governments, the Foundation has done virtually nothing to rectify the situation, and has neither criticised them publicly nor signalled a willingness to withhold further payments. Instead, the Foundation has opted to actively deny that the misuse of the endowment has diminished its impact on student debt.

Despite (or perhaps because of) the fact that it has been unable to address the issue of student debt, the Millennium Scholarship Foundation has recently embarked on a campaign to downplay the crisis of student debt. In appearances before government committees, federal bureaucrats, and university and college presidents, Foundation officials have argued that higher student debt and higher tuition fees will not affect accessibility. In other words, a supposedly arms-length, publicly-funded foundation has taken on the role of apologist for the federal government's record on post-secondary education.

The Foundation's efforts to downplay the student debt crisis rely on a misreading of the data. For example, using research involving interviews with 60 people who did not go to college or university, the Foundation wilfully ignores the fact that direct financial barriers were the most commonly reported reason for non-attendance: over 23% of participants in their survey list direct financial barriers as the reason for not going on to college or university. Instead of recognising the significance of this result, the Foundation chose to draw attention to the remainder of the non-attendees' responses as proof of other accessibility problems.

This decision by the Foundation is even more confounding when the data is more closely examined. Many of the "non-financial barriers" cited by non-attendees are actually likely to be indirectly related to insufficient personal resources. In this light, the number of people who "chose" not to attend college or university because of financial barriers is much higher. As this study relied on data collected in 1991 and 1995, its results also fail to take into account the effects of the enormous increases in tuition fees across Canada since the mid nineties.

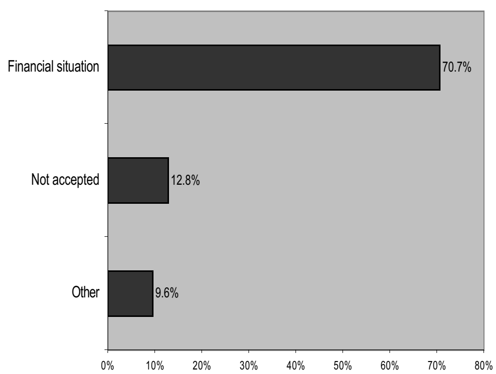
In a 2001 poll conducted on behalf of the Canadian Federation of Students, 46% of lower income Canadians cite lack of money as the reason for not attending college or university. The Foundation rarely acknowledges the fact that the vast majority of those who don't attain a post-secondary education are from lower income homes. Indeed, the dividing line in almost all studies on access to college and university is the financial status of the individual in question.

A *Credible* Reading of Existing Data

Foundation officials have publicly claimed that higher tuition fees have little or no effect on accessibility, and that money is not the primary factor in determining who goes on to higher education. However, most credible evidence points to the contrary. For example, Statistics Canada recently reported that wealthy Canadians are twice as likely to attend university as low income Canadians.

This conclusion is further supported by the 2000 Statistics Canada Youth in Transition Survey. The Survey found that financial obstacles were a barrier for over 70% of the 18 to 20 year old high school graduates who cited barriers to their participation in higher education (see Figure 1). This Statistics Canada survey is yet another example of research that the Foundation has reported upon without drawing attention to the significant deterring effects that high costs of post-secondary education have on students from disadvantaged backgrounds.

Figure 1: Barriers to Post-Secondary Education



Source: Statistics Canada Youth in Transition Survey (2000)

Conclusion

For whatever reason, the Millennium Scholarship Foundation has consistently sought to perpetuate the idea that existing federal government measures have sufficiently addressed the crisis of student debt. This effort has been bolstered by the Foundation's research project.

Despite overwhelming evidence to the contrary, the Foundation's research project has essentially made the following three points:

1. The federal government should not invest any more money in student financial assistance;
2. Non-financial barriers are more important in determining access to college and university than an individual's financial resources;
3. $25,000 (or higher) average debt is perfectly acceptable "because it doesn't matter how much debt a student has, what matters is their ability to pay it back."[1]

These are alarming positions for the Foundation to adopt, given that its alleged mandate is to alleviate student debt and promote access to post-secondary education. Not only has the Millennium Scholarship Foundation been a failure in the implementation of its own program, it has now begun an aggressive campaign to justify higher student debt and higher tuition fees. In the end it would seem, despite Paul Martin's promise that the Millennium Scholarship Foundation would reduce student debt, the Foundation has made it its business to campaign for increased student debt.

Recommendation 6:
The Canadian Federation of Students recommends that the Millennium Scholarship Foundation and the Registered Education Savings Plan be replaced with a comprehensive, national program of needs based grants. With the cancellation of the Millennium Scholarship Foundation and the Registered Education Savings Plan, such a program would be revenue neutral. The MSF has been an abject failure and is now using taxpayer funds to deny the crisis of student debt. Following on the concerns of auditor general Sheila Fraser we call on the federal government to wind up the operation of the Foundation by the end of this fiscal year. We further recommend that the RESP program be terminated. As this brief documents, the RESP program is transferring public funds to those Canadians least in need. Taken cumulatively the funds currently expended on the RESP and the MSF would easily fund a national system of needs based grants.

Unemployment Insurance and training entitlements

The Employment Insurance (EI) program is decades out-of-date with the realities of the organisation of work and the growing demand for education, training and lifelong learning. At present, workers (except for apprentices) are not entitled to regular insurance benefits for training. Despite the obvious need and value of expanding EI sponsored support for training and education, the surplus in the EI account is instead used every year by the federal government for debt reduction, tax cuts or spending on unrelated government programs. If the federal government is serious about meeting the goals outlined in Knowledge Matters, EI should be restructured to reflect the original objectives of the Unemployment Insurance (UI) program: to ensure earnings loss in the event of unemployment, pregnancy, parental leave and temporary sickness. EI must also be expanded to include income support for workers participating in the full range of educational and training opportunities available.

With these goals in mind, the Federation strongly endorses the Canadian Labour Congress's 2002 Composite Resolution on Unemployment Insurance, with special emphasis on the "Training entitlement and benefits" section of the resolution (see Appendix A).As stated in the CLC resolution, trainining and entitlement benefits should:

- be expanded beyond apprenticeship so that regular EI benefits are available for all forms of workplace training;
- include a primary role for public education to ensure access, high standards and accountability
- be accompanied by a requirement for Canada-wide training and occupational standards
- be framed so that training in the event of job loss is the equivalent to job search

In order to ensure the long-term security of these training and education programs, a renewed Unemployment Insurance fund, operating at arms-length from the federal government and within a clear legislative framework, should be established. Furthermore, the restructured UI program should ensure that all worker and employer UI premiums collected be used exclusively for earnings insurance payments and training/education measures for workers. The use of UI money for federal debt reduction, tax cuts or spending on government programs should be made explicitly illegal. The Federation also recommends the repayment of the cumulative surplus (estimated at fifty billion dollars by 2003) already borrowed from the EI account by the federal government for purposes unrelated to Employment Insurance.

Recommendation 7:
The Canadian Federation of Students recommends that the Employment Insurance program be renewed to once again meet the objectives of the original UI program and expanded further to provide income support to workers participating in a full range of education and training opportunities.

Section III - The Canada Student Loan Program

In Summer 2000, the federal government assumed control of the Canada Student Loan Program after the banks withdrew from the risk-sharing agreements established five years earlier in 1995. Under these agreements, the banks had a decisive say in the policy and administration of the Canada Student Loan Program. Under the banks' tenure several regressive policy measures were instituted under the guise of accountability. The most regressive of these measures was the ten-year prohibition on the discharge of student loans through bankruptcy. This unconscionable legislation strips students of the very last financial protection offered under the law. The provisions of the Bankruptcy and Insolvency Act are designed to offer a last hope to those unable to cope with debt. Under the Act, an individual must appear before a judge and present evidence under oath that their financial disposition makes it impossible for them to meet their obligations. It is this provision that has compelled the Canadian Federation of Students to launch a Charter challenge before the Supreme Court of Canada to repeal this unjust and unconstitutional law.

n Knowledge Matters there is a call to increase access to post-secondary for all Canadians. However, in Knowledge Matters there is a particular accent on part-time learners. This call is largely in response to the steep decline in part-time study in Canada over the past decade. In addition, the authors of Knowledge Matters expressed concern about the degree to which the part-time provision under the Canada Student Loan Program is underused. To this end, the Canadian Federation of Students will offer several recommendations designed to increase the participation rates of part time students.

Finally, we are calling on the federal government to honour a commitment made to students in the 1998 "education" budget. That budget committed to a Debt Reduction in Repayment program (DRR) supposed to help over 12,000 students per year. Designed to reduce a student's debt five years after graduation, less than 500 students per year are benefiting from the program to-date. The

Department of Finance has designed entirely unrealistic income eligibility tables, and the result has been a small financial savings for the government and a door slammed in the face of student debtors. Officials from both the Department of Finance and Human Resources Development Canada acknowledged this problem several years ago, but to-date no action has been taken. We urge the Standing Committee on Finance to honour the commitment made in the 1998 budget.

Recommendation 8:
The Canadian Federation of Students recommends that the federal government reverse discriminatory changes to the Bankruptcy and Insolvency Act.

Recommendation 9:
The Canadian Federation of Students is recommending that the federal government honour the commitment made in the 1998 budget and institute the Debt Reduction in Repayment Program (DRR).

Recommendation 10:
The Canadian Federation of Students recommends that the federal government pay the in-study interest for those students studying on a part-time basis.

Recommendation 11:
The Canadian Federation of Students recommends that the income threshold for the Canada Study Grants and student loans for part-time students be raised in order to increase the number of students eligible and that living costs, in addition to educational costs, be included in the loan assessment for part-time students.

Recommendation 12:
The Canadian Federation of Students recommends that those students currently in default on student loans retain access to debt relief measures such as interest relief and that the federal government change the current definition of default from 90 days to 360 days.

Recommendation 13:
The Canadian Federation of Students recommends that the amount students are allowed to earn while in study be increased from $600 per year to $1,700 per semester.

Section IV - Tax Credits as Education Policy

Since the mid 1990s, the Federal Government has increasingly looked to so called "tax expenditures" as a substitute for directly allocated student financial assistance. Federal tax expenditures for education have grown from an estimated $566 million in 1996 to a projected $1.425 billion in 2002[1]. Some of the more significant new measures and changes to existing education oriented tax credits have included:

- 1996 to 2001: A series of increases to the education amount (the amount on which the federal non-refundable education credit is calculated) which has raised the potentially allowable credit from $13.60 to $64 per month of full time studies[2].
- 1997: The non-refundable education and tuition tax credits were altered so as to allow students to carry value forward if the credits cannot be claimed in the original year
- 1998: The introduction of a 17 percent federal tax credit on the interest portion of federal and provincial student loan payments (changed to 16% in 2001).

Despite the size of these expenditures, they have failed to keep up with rapidly escalating increased tuition fee and living costs. Canadian students are significantly financially worse off now than they were in the late 1980s and early 1990s. Moreover, evidence suggests that education oriented tax expenditures disproportionately benefit higher income earners, and that education tax credits as a general policy do little or nothing to improve the accessibility of higher education.

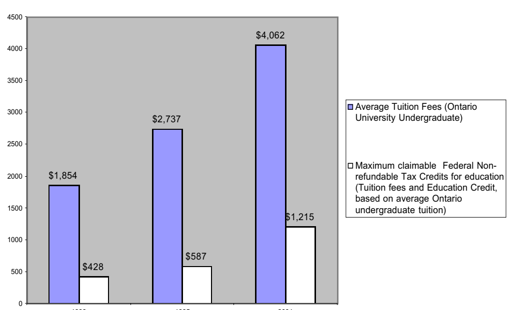
The Education and Tuition Fees Non-refundable Tax Credit: *Failing to meet the increased cost of education*

Of these various federal tax measures, the non-refundable education and tuition fee tax credits have been the most expensive and the most widely used. In the 2000 tax year[3], 2,169,360 students and parents/grandparents of students claimed the education and tuition amounts, costing the federal government $909,728,140 in deferred tax revenues[4]. The changes introduced in the 2001 budget will likely bring this total even higher.

With a probable overall price tag of over $1 billion for the 2001 tax year, these credits undoubtedly appear impressive when viewed as a total amount. One would expect an expenditure of this magnitude to deliver significant improvements to the financial well being of individual Canadian students. The unfortunate reality, however, is that changes to federal non-refundable tuition and education tax credits have actually done very little to offset the soaring tuition fees and increased living costs students have faced over the last decade.

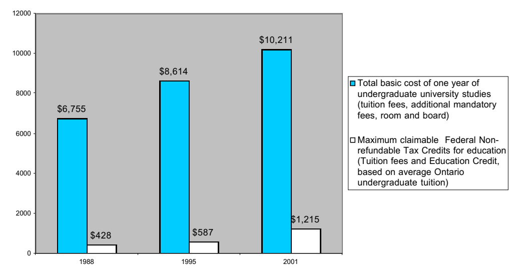
Figure 2 compares average Ontario university undergraduate tuition fees to the maximum federal non-refundable education tax credits available to Ontario students in 1988, 1995 and 2001 (in 2001 dollars). In 1988, an average Ontario university undergraduate paid $1,854 in tuition fees and could claim or transfer up to $425 in federal education tax credits, leaving a gap of $1,426 between these tax credits and tuition fees. By 1995 this gap had increased to $2,151, as tuition fees climbed to $2737 and applicable education tax credits rose to $587. By 2001 average tuition fees had risen to over $4,000 and, despite increases to the education amount in the 2001 budget, the gap between tuition fees and federal tax credits was nearing $2,900.

Figure 2: Ontario Tuition Fees and Federal Non-refundable Tax Credits 1988, 1995 and 2001 (2001 dollars)



The gap between federal tax credits and the costs facing students living away from home is even more dramatic. As shown in Figure 3, combined tuition fees, mandatory student fees and room and board for an average Ontario university undergraduate climbed from $6,755 per year in 1988 to $10,211 in 2001. While tax credits also rose during this period, they did little to mitigate increasing costs. The maximum federal education and tuition fees credit available to an average Ontario university student in 2001 amounted to only $1,215, leaving a gap of almost $9,000 between basic education costs and applicable federal non-refundable tax credits for education.

Figure 3: Total Costs Per Year of University Studies (Ontario) and Federal Non-refundable Tax Credits for Education, 1988, 1995 and 2001 (2001 Dollars)



Source: Calculations based on Statistics Canada data

Helping those most who need help the least?

Substantial disparities exist on the average amount being claimed by income bracket through the education and tuition fees credit . Individuals from the highest income brackets tend to claim more on these credits than do claimants from the lower and middle income ranges. In the 2000 tax year, for example, claimants with incomes less than $60,000 a year claimed an average of $409 worth of education and tuition fee credits. Claimants earning over $250,000 (most of whom presumably claimed this credit as a transferred amount from a child) averaged $628 on these same credits. A substantial (and rising) percentage of non-refundable education credits are being claimed as amounts transferred, which provides no guarantee that the full value of this credit is necessarily being applied to education-related expenses[5].The Department of Finance estimates that total education credits transferred have outstripped total credits claimed by students since 2001 (excluding amounts carried forward)[6].

The "carry forward" measures introduced in 1997 have allowed lower income students to claim non-refundable credits that would have been lost to them in the past. Although this is a small improvement over the previous system, it contains a flaw that again skews the value of the credit towards those with higher incomes. Because of inflation, students who are forced to carry forward education and tuition credits ultimately gain less value from their credits than students who have enough income to claim them in the year they are assessed. Lower income students are thus penalised for not having enough income to claim the credits when they are first made available. With the total carry forward of education and tuition fee credits projected to reach $380 million by 2003, the cumulative amount lost by lower income students through this depreciation could run into the millions of dollars[7].

The Student Loan Interest Credit

The Student Loan Interest Credit is probably the least useful of current federal tax expenditures for education. Though the total "cost" of this credit was over $71 million in 2000, the average amount claimed on it works out to only $9.50 per month worth of debt and tax "relief" per claimant. Low income earners (less than $20,000) only received an average of $6.83 a month. As this credit is only available on interest paid, it provides absolutely no relief to the most desperate student loan holders who are unable to keep up with their loan payments. With average student debt loads approaching $25,000, this credit is totally ineffective in addressing the ongoing crisis of student debt.

Tax credits do not increase access to higher education

On the whole, tax credits are "back-ended" measures and do little to improve access for the most economically disadvantaged groups. Tax credits require students to pay money "up front" in order to (maybe) have it refunded at some point in the future. As a policy, education tax credits do nothing to address the initial financial obstacles that prevent low and lower middle income students from accessing higher education. Thus, education tax credits are most likely to benefit those who require little assistance with high tuition fees. A recent study by Harvard University professor Dr. Bridget Long found that this was precisely the outcome of education tax credits introduced in the United States: "[a]lthough one goal of the tax credits was to increase access to higher education, this study found no evidence of increased postsecondary enrollment among eligible students"[8]. Long's study also found that the education tax credit measures introduced in the U.S. appear to have provided state governments with an incentive to raise tuition fees at public institutions[9].

Recommendation 14:
The federal government should cancel the education and tuition amount for those earning over $70,000 and apply the savings directly to new national system of needs-based grants.

Footnotes to Innovation Section:

1. "Money + Science = Ethics Problems on Campus." The Nation. March 22, 1999.

2. Cited in "The Kept University." 2001 Science and Technology Policy Yearbook (American Association for the Advancement of Science), Teich, A. et al. eds.

3. The Natural Sciences and Engineering Research Council supports approximately 75% of faculty in the so-called "hard" sciences.

Footnotes to Tax analysis:

1 Department of Finance Canada *Tax Expenditures and Evaluations 2001*

2 The education amount has risen from $80 per month to $400 a month since 1996, but the actual credit is calculated by multiplying the total of the education and the tuition fees amount by the lowest federal tax rate (16% for 2001 and 2002, and 17% on earlier returns).

3 The most recent year for which interim statistics are presently available

4 Canada Customs and Revenue Agency preliminary figures

5 Department of Finance *Canada Tax Expenditures and Evaluations 2001*

6 Department of Finance Canada *Tax Expenditures and Evaluations 2001*

7 Department of Finance Canada *Tax Expenditures and Evaluations 2001*

8 Bridget Terry Long "The Impact of Federal Tax Credits for Higher Education Expenses", Prepared for the NBER Volume and Conference: *College Decisions: How Students Actually Make Them and How They Could*, Harvard University August 2, 2002

9 Bridget Terry Long "The Impact of Federal Tax Credits for Higher Education Expenses"

Appendix A

From the Canadian Labour Congress's *2002 Composite Resolution on Unemployment Insurance*:

Therefore be it Resolved

Training entitlement and benefits [be]:

1. expanded beyond apprenticeship so that regular EI benefits are available for all forms of workplace training;
2. accompanied by a requirement for: the development of a workplace human resource and training plan; Canada-wide training and occupational standards; recognition of prior learning and worker experience; a primary role for public education to ensure access, high standards and accountability; and union participation in approving the training plan and establishing standards with employers, education and government;
3. coupled with an EI premium reduction for employers who provide paid education leave or workplace training equivalent to what is provided by EI training insurance (similar to the premium reduction for employers and their employees with private insurance plans that top-up maternity, parental, and sickness coverage);
4. accompanied by the same protection of worker employment rights in federal and provincial labour standards that are provided for EI maternity and parental benefits;
5. framed so that training in the event of job loss is the equivalent to job search; and
6. framed so that hours of work prior to a training count as qualifying time for benefit entitlement during and following leave.