**Canadian Federation of Students' submission to the**

# House of Commons Standing Committee on Finance

**September 2004**

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# The Canadian Federation of Students

## 76 Member Students' Unions
## 475,000 University and College Students

### British Columbia

Camosun College Student Society

Capilano Students' Union

City Centre Students' Union

Douglas Students' Union

Emily Carr Students' Union

King Edward Students' Union

Kwantlen Student Association

Malaspina Students' Union

College of New Caledonia Students' Association

North Island Students' Association

Northern Lights College Students' Association

Northwest Community College Students' Association

Okanagan University College Students' Association

Penticton Campus Students' Association

College of the Rockies Students' Union

Selkirk Students' Association

Simon Fraser Student Society

University of Victoria Graduate Students' Society

University of Victoria Students' Society

### Prairies

Alberta College of Art and Design Students' Association

Brandon University Students' Union

Graduate Students' Association of the University of Calgary

First Nations University of Canada Students' Association

University of Manitoba Graduate Students' Association

University of Regina Students' Union

University of Saskatchewan Graduate Students' Association

Association des étudiantes et étudiants du Collège universitaire de Saint Boniface

University of Winnipeg Student Association

### Ontario

Algoma University Students' Union

Atkinson Students' Association

Brock University Graduate Students' Association

Carleton University Graduate Students' Association

Carleton University Students' Association

Student Association of George Brown College

Glendon College Student Union

University of Guelph Central Student Association

*Continued . . .*

*Members continued:*

University of Guelph Graduate Students' Association
Lakehead University Student Union
Laurentian University Students' General Association
Association des étudiantes et étudiants francophones de l'Université Laurentienne
McMaster University Graduate Students' Association
Nipissing University Student Union
Ontario College of Art and Design Student Union
Graduate Students' Association des étudiant(e)s diplômé(e)s de l'Université d'Ottawa
Queen's University Society of Graduate and Professional Students
Ryerson Students' Administrative Council
St. Paul University Students' Association
Scarborough Campus Students' Union
University of Toronto Graduate Students' Union
Association of Part-Time Undergraduate Students of the University of Toronto
University of Toronto Students' Administrative Council
Trent Central Students' Association
Trent University Graduate Student Association
University of Western Ontario Society of Graduate Students
Wilfrid Laurier University Graduate Students' Association
University of Windsor Graduate Students' Society
University of Windsor Students' Alliance
York Federation of Students
York University Graduate Students' Association

**Québec**

Concordia Graduate Students' Association
Concordia Students' Union
Post-Graduate Students' Society of McGill University

**Maritimes**

Acadia Students' Union
University College of Cape Breton Students' Union
Dalhousie Association of Graduate Students
Holland College Student Union
University of King's College Students' Union
Mount Saint Vincent University Students' Union
Student Union of Nova Scotia College of Art and Design
University of Prince Edward Island Student Union
University of Prince Edward Island Graduate Student Union
Association générale des étudiants de l'Université Sainte-Anne

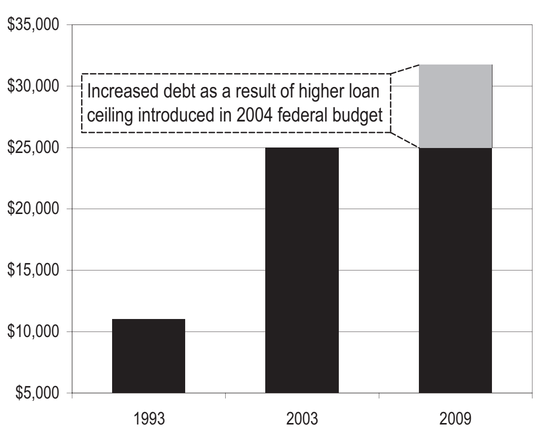
**Newfoundland & Labrador**

Grenfell College Student Union
Marine Institute Students' Union
Graduate Students' Union of the Memorial University of Newfoundland
Memorial University of Newfoundland Students' Union
College of the North Atlantic Students' Association

## Introduction:
## Financial Barriers to Access

The crisis in accessibility in Canada's universities is driven by the cost of a post-secondary education. Despite the elementary nature of this observation, there is real resistance among university and college administrators and government policymakers to acknowledge this reality. Over 400,000 students are forced to borrow to finance their education every year. Average student debt for a four-year program is now over $25,000. However, that number is likely to rise rapidly with the increase in loan limits introduced in the 2004 federal budget. The decision taken in 2003 to substantially increase the amount students can borrow will ensure that students from low- and middle-income households start their working lives saddled with debt (see Figure 1). It is critical to note that the rapid increase in student debt has occurred in conjunction with the elimination of grants programs in most provinces[1].

Figure 1: Average Student Debt 1993, 2003, & 2009




Note: Calculations based on four years of post-secondary education

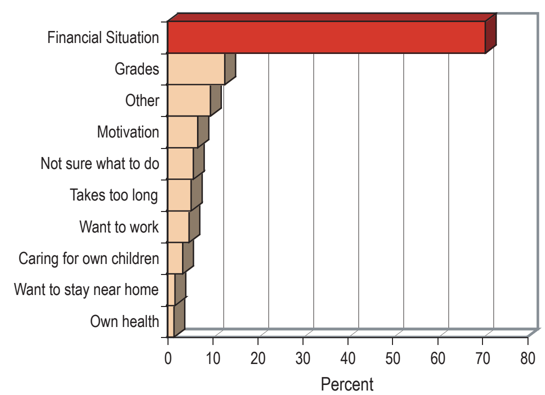
Though policymakers often look at student debt as the deferred cost of a post-secondary education, there is good reason to believe that it is a primary factor in determining access to post-secondary education at the front end. While it is true that students do not start repaying a loan until they cease full time study, students are increasingly weighing their post-graduation debt burden when deciding whether to pursue higher education (see Figure 2). In addition, it is imperative that this committee examine the real cost of student debt. A $25,000 student debt is actually a debt of almost $33,000 when accounting for interest payments over the amortization period (see Table 1). This number is also based on interest rates at an all-time low. Interest rates will likely only go up from their current levels[2].

Table 1: Canada Student Loan Repayment by Principal and Repayment Period

| Principal | Repayment Period | Monthly Payment | Interest Paid | Total cost of Education |
|---|---|---|---|---|
| $20,000 | 10 years | $218.62 | $6,233.47 | $26,233.47 |
| $20,000 | 15 years | $165.12 | $9,720.92 | $29,720.92 |
| $25,000 | 10 years | $273.27 | $7,792.07 | $32,792.07 |
| $25,000 | 15 years | $206.39 | $12,152.06 | $37,152.06 |
| $32,000 | 10 years | $349.49 | $9,973.68 | $41,973.68 |
| $32,000 | 15 years | $264.19 | $15,553.42 | $47,553.42 |

Recent socioeconomic data starkly demonstrates that student debt is, by definition, the most regressive way of financing a post-secondary education. Those who enter the system with the least are forced to borrow the most. Students from low-income households are the least likely to have a ready source of funds to pay tuition fees up-front. Thus, those who are from low-income homes bear the brunt of fee hikes and borrow upwards of $50,000 to finance an undergraduate degree. A recent Cana-

Figure 2: Identified Barriers to Post-Secondary Education for Secondary School Graduates



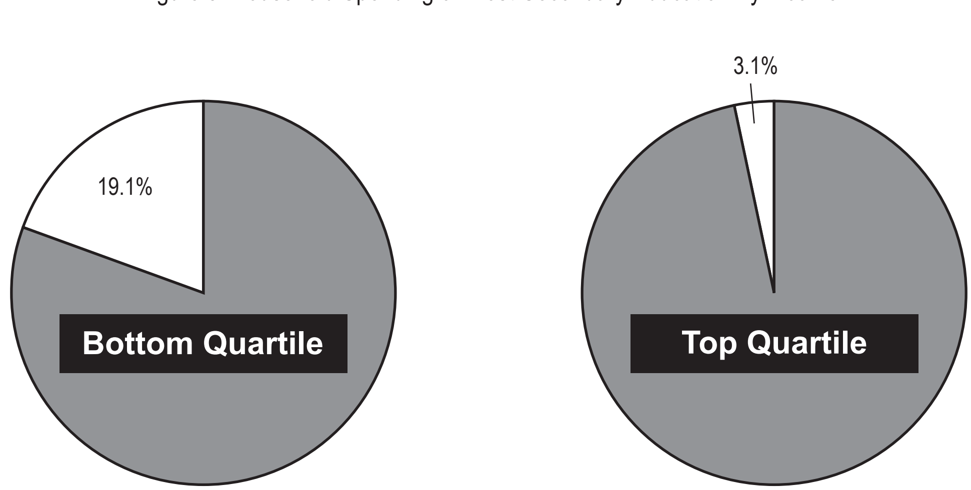

Source: Youth In Transition Survey 2002 (Statistics Canada)

dian Association of University Teachers report documented this trend by noting that, as a percentage of disposable income, those in the bottom quartile of income earners devote nearly three times as much to education costs as those in the top income quartile (see Figure 3). This disparity is confirmed by Statistics Canada's Participation in Post-Secondary Education Study (PEPS) that determined that those from families in the top quartile income are twice as likely to attend university as those in the bottom quartile.

This evidence becomes more worrisome when it is viewed in the context of recent data on the growing gap between the rich and the poor in Canada. Statistics Canada's 2001 census report showed that the income of those in the bottom quintile remained stagnant through most of the 1990s while families in the top one-tenth of income earners made substantial gains[3]. These findings are corroborated by other Census data that found that, on average, those under the age of thirty are earning substantially less than they did in 1980. This statistic is troublesome on two levels: first, it means a decline in disposable income for those facing tuition fees that increased by 130% in the 1990s (see Figure 4). Second, for those lucky enough to attend college or university this income data shows that they are likely to experience difficulty paying back mortgage-size loans. Thus, Canada has the most indebted generation in its history facing a real decline in their income.

The greatest factor driving higher student debt is tuition fees. Tuition fees are the largest single cost students face as students. Tuition fees have increased by over 130% since 1990 and the national average for tuition fees for an arts and sciences undergraduate degree is over $4,000. Fees at that level will consolidate the access gap outlined by the PEPS study but there is also evidence to suggest that current fee levels are pushing students out of the system. A recent study undertaken at the University of Indiana demonstrates that for every $1,000 increase in tuition fees there is a 19% drop in persistence rates of low-income students[4]. A similar study conducted by University of California at Los Angeles

Figure 3: Household Spending on Post-Secondary Education By Income

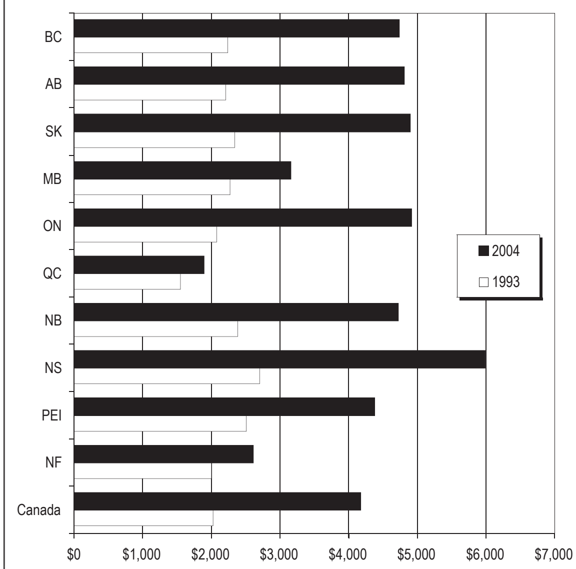


(UCLA) economist Thomas Kane noted that for every $1,000 dollar in fee hikes there would be a commensurate decline in enrolment of 14.9%. According to Kane, the decline in enrolment comes "almost exclusively from minority and low-income students"[5].

In the Canadian context, a 1999 study found a direct link between tuition fee increases and depressed enrolment amongst students from low-income families. The Department of Epidemiology and Biostatistics at the University of Western Ontario undertook a study on the accessibility of Western's medical school in the years immediately following the deregulation of tuition fees in Ontario. This study was conducted over a four-year period to determine the effect of steep fee increases on the attributes of new students. The study examined participation rates by socioeconomic status and documented a dramatic decline in participation rates from low-income families by the fourth and final year of the study. In the first year examined, 17.3% of students in medical school came from homes where family income was under $40,000. That year, students were paying the regulated tuition fees of approximately $4,000. By the fourth year of the study, when tuition fees had risen to over $10,000, only 7.7% of students were from this low-income group (see Figure 5). Thus, because of deregulated tuition fees, there was a 50% decline in the participation of low-income students.

In addition to the research on the upfront cost of a post-secondary education, there is overwhelming evidence to suggest that grants (not loans) are the way to promote access. In the largest study of its kind, British researchers followed low-income students through the system and determined that the availability of grants was the primary factor in determining whether low-income students could finish their degrees. A similar study in the United States, entitled *Access Denied*, also found that access to grants was the determining factor on whether or not low- and middle-income students would enter the system and persist until graduation. In another UK study, researcher Stephen Machin tracked a decline in the participation rates of low-income students after the UK government abolished grants for living expenses. In the final year of the program,

Figure 4: Undergraduate Arts Tuition Fees, 1993 & 2004

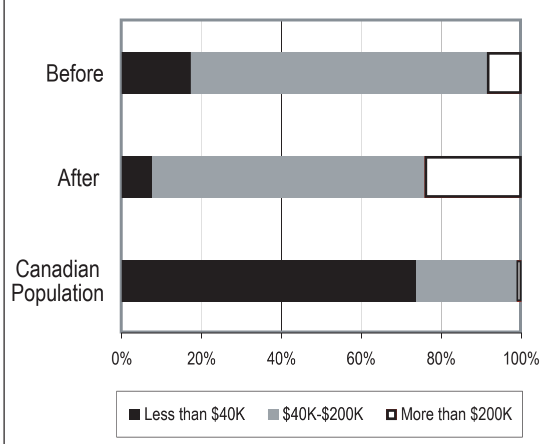



13% of those in UK universities were from the lowest income strata. Six years after the grant was scrapped, only 7% came from the poorest British families.

By increasing loan limits in the 2004 budget the federal government made it clear that loans are the preferable policy model for coping with the exploding cost of post-secondary education. Unfortunately, this approach will exacerbate the social inequities in access outlined above. The most recent National Graduate Survey quantified the intuitive point that those from the lowest income families are borrowing the most[6]. More importantly, it is those from low-income households who are having the hardest time repaying their loans. They are taking the longest time to pay off their loans and, through compound interest, pay more for their education than those who borrow less or nothing at all.

The grants program for low-income students introduced in the 2004 budget is a belated and modest recognition by the federal government of the necessity to increase spending on grants. However, at the current level of financing, the program is unlikely to be much more than a first step since a grant's value is relative to the cost it is intended to mitigate. Without restoring funding to the provinces for post-secondary education, tuition fees will rapidly erode the value of federal grants. An alternative

Figure 5: Income Distribution of UWO Medical Students Before and After Tuition Fee Deregulation




approach to this type of federal funding is outlined later in this brief.

**RECOMMENDATION #1** *Increase the value of the low-income grant from 50 percent of tuition fees to 100 percent of tuition fees, while eliminating the $3,000 ceiling.*

### Learning Bond

The federal government announced that $325 million will be spent each year attempting to address what it 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 Registered Education Savings Plan (RESP) advertising, rather than the reality of other more immediate expenses (i.e.. food, shelter), is offensive. 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 with incomes below $35,000 with children born after 2003 will receive $500 towards the establishment of a RESP and only $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 perennially poor family can hope for from a Learning Bond is 75% of one year of tuition fees. Moreover, the "savings" of a Learning Bond will reduce a family's eligibility for other needs-based assistance.

The Canadian Federation of Students convened a meeting in March 2004 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 worthiness of the Learning Bond. Participant organisations were unanimous in their opposition to the proposal to increase federal spending on flawed savings programs.

**RECOMMENDATION #2** *The federal government should eliminate the Registered Education Savings Plans, and the related Canada Education Savings Grant and Learning Bonds, and use the savings to finance a national system of needs-based grants.*

### Millennium Scholarship Foundation

The Millennium Scholarship Foundation (MSF) was created in 1998 as part of the "education budget." Then Finance Minister Paul Martin promised in his budget speech that the MSF would reduce the debt of those in the highest need by $12,000. Unfortunately, very little of the money set aside to reduce student debt has made its way to students. Most provinces have simply ignored the non-binding "gentleman's agreements" signed with the Foundation. In Nova Scotia, Prince Edward Island, British Columbia, and Ontario, students are seeing little or no benefit. In other provinces, a small portion of the money is going to reduce student debt.

Regrettably, little time or energy has been put into pushing the governments of Nova Scotia, New Brunswick, and Ontario to use Foundation funds to reduce student debt. The Canadian Federation of Students is not alone in its concern about the fiscal and operational accountability of the Foundation. In testimony before the Standing Committee on Public Accounts, Auditor General Sheila Fraser (February 12, 2003) and Professor Peter Aucoin of Dalhousie University (October 8, 2003) both criticized the fact that Foundations, such as the MSF, are unaccountable to parliament despite their vast expenditures of tax dollars. The Auditor General was particularly perturbed that the finances and operations of the MSF are essentially the business of its private board.

In addition, the Foundation is also squandering ten million dollars on a research project designed to deny the social effects of high student debt and tuition fees. The Foundation is now quietly doling out lucrative contracts to conservative American think–tanks staffed by former Millennium Foundation staff.

In light of this record of abject failure and the pressing need for a modern system of student financial assistance, the Canadian Federation of Students is calling upon the federal government to collapse the Foundation and redirect its budget to expanding the low-income grant, or to a national system of needs-based grants.

**RECOMMENDATION #3** *The federal government should scrap the Millennium Scholarship Foundation and the Registered Education Savings Plans and use the funds to implement a national system of needs-based grants.*

### Credit Checks

In 1998, the federal government introduced credit checks for all Canada Student Loans Program applicants over the age of 21. A student loan can be denied to an individual who, in the three years preceding application for a student loan, has missed at least three monthly payments on each of three separate loans or debts worth $1,000 or more. The ostensible reason for the introduction of this regulation was to screen out habitual credit abusers. However, virtually any family in Canada that falls upon hard economic times could fail the current credit check. In most cases, failing the Canada Student Loans Program's credit screening is not due to a moral failing or fraudulent intent, but rather a matter of financial desperation. These are the Canadians that the federal government has made a specific commitment to help in the past[7]. Therefore, it is punitive and counter intuitive to disqualify those who are the most in need of the skills and hope offered by post-secondary education from receiving student financial assistance. The federal government has failed to distinguish those in legitimate financial hardship from those committing fraud. In its effort to protect the fiscal integrity of the system, the government has, in effect, punished people for being poor.

**RECOMMENDATION #4** *The federal government should remove the credit history assessment for Canada Student Loans Program eligibility.*

### Debt Reduction in Repayment

The Canadian Federation of Students is calling on the federal government to honour a commitment made to students in the 1998 budget. The Debt Reduction in Repayment program (DRR) was supposed to help over 12,000 students per year. Touted as a method of reducing unmanageable debt after graduation, eligibility criteria instead ensured that less than 500 students per year on average have benefited from the program in its first three years. Only those repaying living in extreme poverty could qualify for DRR.

In 2003, the Department of Finance finally acknowledged this problem and committed to reworking eligibility requirements for DRR. However, no revised tables have been presented to date. In the meantime, many of those who should have legitimately qualified for Debt Reduction in Repayment in the past five years will have defaulted on their loans, and be rendered ineligible under the revised criteria.

The dismal performance of the DRR program is particularly disappointing because, by definition, the program was intended to help those most in need. When it was unveiled in 1998, then Finance Minister Paul Martin promised that the program would assist those overwhelmed with massive student debt. Five years later, student debt continues to increase and the program exists primarily in name only. The federal government's decision to increase student debt in the 2004 budget makes the need to remedy this problem even more acute.

### Bankruptcy and Insolvency Act

The Bankruptcy and Insolvency Act were designed to offer hope to those unable to cope with debt. Under the Act, individuals must appear before a judge and present evidence under oath that their financial disposition makes it impossible for them to meet their obligations. However, the ten-year prohibition introduced in the 1998 "education budget" deprives students of their rights under the law. The effect of the 1998 changes to the Bankruptcy and Insolvency Act (B.I.A.) has been destructive and widespread. The law ensures that those unable to afford massive student loan payments are harassed by collection agents for up to ten years. This arbitrary and punitive change was widely criticized by legal and bankruptcy professionals[8].

In the spring of 2003, the Senate Committee on Banking, Trade, and Commerce and Industry Canada examined all aspects of the Act, including the ten-year prohibition on student loan bankruptcy. The Canadian Federation of Students provided a detailed critique of the law to the Senate Committee on Banking and Finance and Industry Canada on May 8, 2003. In addition, a panel of experts convened by Industry Canada recommended that students be entitled to a hardship hearing within one year of graduation and that the general prohibition be lowered from ten to five years. During its appearance before the committee, Industry Canada's Personal Insolvency Task Force offered compelling evidence of the fiscal and personal hardship caused by the law. In November of 2003 the Senate Committee recommended the prohibition be changed to five years with the possibility of a hardship hearing after one year. In making its recommendation, the Committee noted the personal hardship this law is causing[9].

Nevertheless, the fundamental inequity of the prohibition demands review. If an individual's economic circumstances are such that existing debt management programs are not adequate, a bankruptcy hearing should not be prohibited by law, as is now the case.

**RECOMMENDATION #5** *The federal government should repeal the ten-year prohibition on bankruptcy for Canada Student Loan holders.*

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## Federal Transfers for Post-Secondary Education

During a national CBC television broadcast on June 4, 2004, Prime Minister Paul Martin said that the Canada Social Transfer should be divided again so that post-secondary education funding is transferred in its own distinct payment. The Prime Minister added that the "dedicated" transfer should reach $7 to $8 billion. The Canadian Federation of Students agrees with the Prime Minister.

The Prime Minister's comments are the latest development in a growing consensus in the post-secondary education community that current transfer payment mechanisms are inadequate to achieve federal funding goals. The following section is a blueprint for how increased funding through a separate transfer payment for post-secondary education is a necessary step towards improving the accessibility and quality of Canadian universities and colleges.

### History of Transfer Payments

In federal budgets since 1995, the Government of Canada has implemented several initiatives that can be considered "post-secondary education" spending. However, these programs have been confined almost exclusively to commercial research and foregone tax revenue (taxes avoided under RESPs and tax credits). To the detriment of access to post-secondary education, the federal government has quietly retreated from its historical role as the key figure in post-secondary education financing.

In 1994, federal investments in post-secondary education were deliberately shifted away from core transfers to the provinces. Over the past ten years, the federal government has more than tripled direct spending, while transfers to the provinces for post-secondary education have remained stagnant.

Direct spending by the federal government on post-secondary education consists of new research projects such as the Canada Foundation for Innovation and the Canada Research Chairs. In addition to university research funding, direct federal spending also includes significant, if misguided, spending on programs that have made no appreciable impact on access to post-secondary education or student debt, such as the Registered Education Savings Plan and education tax credits.

Perhaps the best example of ineffective direct spending is the Millennium Scholarship Foundation. An independent review of the Foundation conducted in the fall of 2003 concluded that the impact of the program was minimal. A more detailed review of the Foundation's failure to produce results is outlined in the previous section.

Although direct spending was increased, transfers to the provinces for post-secondary education were cut significantly between 1995 and 1998 (see Figure 6), bringing the core federal contribution to its lowest levels in more than 30 years. Provinces struggled with the increased burden and passed those costs on to students and their families. As a direct result, tuition fees at Canada's universities more than doubled in less than a decade. Thus, while eliminating Canada's budgetary deficit during the past decade, that amount has been shuffled off the national books and onto the backs of students in the form of student debt.

Modest transfer payment increases in recent federal budgets have merely restored cash transfers to the 1993 level in *absolute dollars*. However, when accounting for population growth and inflation, the per capita federal cash transfer for post-secondary education is more than 50% below the 1993 level[10]. It is estimated that an additional $1.5 billion per annum would be required to return cash transfers to the 1993 level[11].

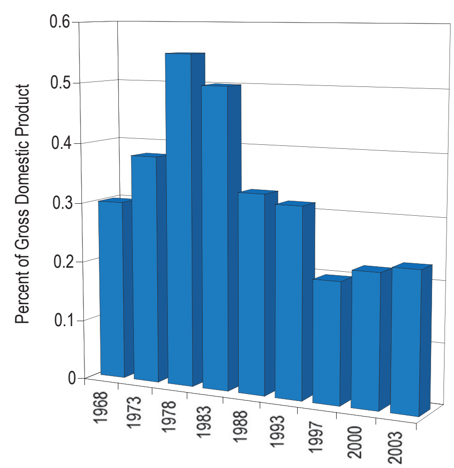
## Towards a Post-Secondary Education Transfer

It is commonly understood that the federal government's emphasis on direct spending over provincial transfers was motivated by the desire to see immediate results in areas of direct federal jurisdiction (university research, income tax). During the 1990s, direct spending became a proxy for engagement with provincial governments in discussions about how to improve the quality and accessibility of Canadian universities and colleges.

However, these types of discussions have taken place in the area of health care and have been relatively successful. Leadership from the federal government has fostered crucial collaboration from which all Canadians benefit. The same spirit of collaboration must be brought to negotiations with the provinces to improve post-secondary education.

The federal government has a clear constitutional role in the core funding of universities and colleges.

Figure 6: Federal Post-Secondary Education Transfers as a Share of Gross Domestic Product, 1968-2003




That the Prime Minister has responded to the call of the Canadian Federation of Students for a post-secondary education transfer is encouraging, but the conditions and commitments for such a transfer will determine its viability. Not only must there be a distinct payment to the provinces for public universities and colleges, but mutually agreed upon conditions must be established in order to avoid the misallocation of federal post-secondary education moneys by the provinces.

The Canadian Federation of Students and the Canadian Association of University Teachers (CAUT) both recommend the adoption of legislation or other binding forms of agreement that would establish conditions for federal post-secondary education transfers. These conditions must commit the provinces to upholding principles similar to those of the Canada Health Act: public administration, accessibility, comprehensiveness, democratic governance, and academic freedom. In return for upholding these principles, provincial governments would receive increased and predictable funding from the federal government.

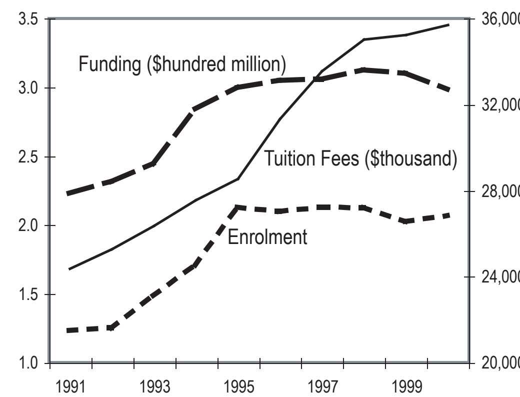
One of the first steps to creating the conditions for a collaborative strategy with provincial governments is for the federal government to commit to restoring cash transfers to 1993 levels in real dollars (approximately 0.33% of gross domestic product), and ultimately 0.5% of gross domestic product.

By taking a more active role in the core funding of universities and colleges, the federal government can be assured that increased funding will meet the social policy goals to which it committed itself in *Knowledge Matters*.

### Canada Can Easily Afford to Reinvest in Accessibility

Federal re-investment in core funding to universities and colleges is long overdue. As noted earlier, cuts to post-secondary education transfers (espoused at the time as essential to eliminating Canada's deficit) were borne by students in the form of higher tuition fees and deeper student debt. Despite seven budgetary surpluses since 1997, the damage done to the accessibility of universities and colleges has yet to be reversed.

Figure 7: Federal Aboriginal Post-Secondary Education Funding,Tuition Fees, and Aboriginal Enrolment




Both the Conference Board of Canada and the Canadian Centre for Policy Alternatives forecast a $50 billion surplus over the next five years. A mere nine percent of the projected surplus would be enough new spending to return post-secondary education cash transfers to 1993 levels. Moreover, scrapping so-called financial aid programs that either do not work (Millennium Scholarships) or are misdirected (Canada Education Savings Grant) would generate savings of upwards of $700 million that should be directed at a comprehensive system of needs-based grants.

**RECOMMENDATION #6** *The federal government should, in cooperation with the provinces, create a post-secondary education cash transfer payment for the purpose of reducing tuition fees and improving quality at universities and colleges. The transfer should be guided by the principles in a Post-Secondary Education Act.*

## Aboriginal Education

The 2003 federal budget provided a $12 million endowment to establish post-secondary scholarships for Aboriginal peoples. The scholarships will be administered by the National Aboriginal Achievement Foundation, a private charity that provides funding to Aboriginal students for education and training. No details were provided on the number of scholarships that will be funded through the endowment, nor the dollar amount of individual scholarships.

While new money to assist First Nations peoples' participation in post-secondary education is welcome, this one-time endowment does not constitute the type of long-term investment that is required to boost access to post-secondary education for Aboriginal peoples. When adjusted for inflation, annual funding through Indian and Northern Affairs Canada for Aboriginal post-secondary education actually declined by almost $14 million between 1998 and 2002. At the same time, rising tuition fees mean that post-secondary education is more expensive today than ten years ago. Reduced funding and rising tuition fees are a key factor in the stagnation of Aboriginal enrolment in post-secondary education since the mid-1990s.

### New Taxation is a Violation of Treaty Rights

The federal government has announced that it will impose income taxes on the funding that Aboriginal students receive from their bands. That this decision was taken without consulting with First Nations' leaders is also quite disconcerting.

Education is a treaty right, and the imposition of taxes on band funding to individual students should be considered a violation of previous agreements. Moreover, given the underrepresentation of Aboriginals in post-secondary education, the potential reduction of net funding for Aboriginal students will lead to greater hardship for those who succeed in gaining access to university or college.

RECOMMENDATION #7 *The federal government should meet its treaty obligations with First Nations by fulfilling the post-secondary education funding needs identified by the Assembly of First Nations, the Metis National Council, and the Inuit Tapiriit Kanatami.*

## Federal Tax Policy

Since the mid-1990s, the federal government has increasingly looked to 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 $1.43 billion in 2002[12]. 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 amounts on which the federal non-refundable education credit is calculated has raised the potentially allowable credit from $13.60 to $64 per month of full-time studies[13].

• 1997: The non-refundable education and tuition fee 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% federal tax credit on the interest portion of federal and provincial student loan payments (changed to 16% in 2001).

Despite their size, these expenditures have failed to keep up with rapidly increasing tuition fees and living costs. Canadian students are 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.

### Tax Credits: The Wrong Approach

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[14], 2,169,360 students and parents of students claimed the education and tuition amounts, costing the federal government $909,728,140 in deferred tax revenues[15].

With an overall price tag of close to $1 billion in 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. However, the unfortunate reality is that changes to federal non-refundable tuition fee 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 8: Growth of Ontario Tuition Fees versus Federal Tax Credits

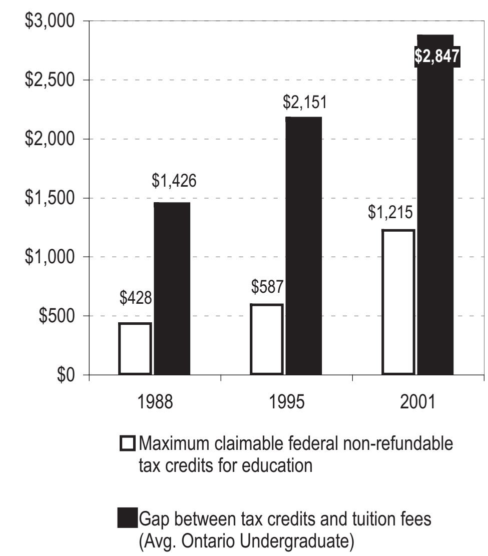



Figure 8 compares average Ontario university undergraduate tuition fees to the maximum federal non-refundable education tax credits available to Ontario students in 1988, 1995 and 2001 (in 2001 dollars). In 1988, an average Ontario university undergraduate student paid $1,854 in tuition fees and could 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 $2,737 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.

The gap between claimable amounts of federal tax credits and the costs facing students is even more dramatic. Combined, tuition fees, food and housing for an average Ontario university undergraduate student 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 offset 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.

### 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 claim more on these credits than do claimants from the low- and middle-income ranges. In the 2000 tax year, for example, claimants from families with incomes of 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[16]. 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[17]. The Department of Finance estimates that total education credits transferred have outstripped total credits claimed directly by students since 2001 (excluding amounts carried forward)[18].

### 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 (those earning 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 near $25,000, this credit is ineffective in addressing the ongoing crisis of student debt.

### Tax Credits Do Not Improve 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 (possibly) 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 middle-income students from pursuing 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: "although one goal of the tax credits was to increase access to higher education, this study found no evidence of increased post-secondary enrolment among eligible students"[20]. 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[21].

**RECOMMENDATION #8** *The federal government should cancel the education and tuition fee tax credit for those earning over $70,000 and apply the savings directly to a new national system of needs-based grants.*

## Conclusion

The recommendations contained within this submission are modest and, with the exception of a request for augmented transfer payments, cost neutral. Moreover, the cash transfer recommended here would simply see the level of funding restored to previous levels.

This document has demonstrated that each year the high upfront costs of post-secondary education dissuade tens of thousands of young people from applying for university and college, while thousands more drop out because they can no longer afford to attend. This situation continues to worsen, despite the millions of dollars spent each year by the federal government on a patchwork of student aid programs. The failure of federal initiatives to improve access to post-secondary education can be traced back to an incoherent vision for student financial assistance. A mixture of wealth-based savings vehicles, blind tax rebates, mortgage-sized loans, and depreciating grants characterise the federal approach. Punitive elements of the Canada Student Loans Program, such as credit checks and the bankruptcy prohibition, further exacerbate the widening participation gap.

This submission has assembled evidence from a variety of sources, both Canadian and international, to reinforce that needs-based grants are the most effective measure to improve equality of access to post-secondary education. Furthermore, this brief has clarified that virtually all of the credible research available suggests that upfront costs, especially tuition fees, are a barrier to the participation of students from low- and middle-income backgrounds. The same research concludes that massive loans are an inadequate way to address the resource gap between those who can afford tuition fees and those who cannot.

Finally, this brief has expressed approval for the Prime Minister's plans to separate a portion of the Canada Social Transfer for post-secondary education. Such a move would improve transparency and accountability in the federal-provincial relationship governing the core funding of Canadian universities and colleges. However, it must be stressed that a new cash transfer payment for post-secondary education is a *means to an end, not an end in itself*. A post-secondary education transfer must have the explicit goals of reducing tuition fees and improving the quality of the learning environment. The agreed upon conditions for provincial spending must be accompanied by conditions for predictable and escalating funding by the federal government, because without specific and binding conditions on the cash transfer, the entire project will be pointless.

## Endnotes

1. Quebec is now the only province with a comprehensive system of up-front grants. British Columbia, the last remaining province outside of Quebec with grants, eliminated its system of four-year grants in May 2004. Throughout the 1990s, provincial governments systematically raised tuition fees while simultaneously cutting grant programs. Predictably, student debt has skyrocketed. To take but one example, in Ontario student debt doubled in the year after grants were eliminated.

2. On September 1, 2004, the Bank of Canada increased its overnight rate one-quarter of a percent to 2.25%. Economic analysts predict that more rate hikes will follow.

3. For further documentation of this trend, see Armine Yalnizyan's *Canada's Great Divide: The Politics of the Rich and the Poor in the 1990s*. In addition, Andrew Jackson's *Falling Behind* specifically addresses the stagnant wages of working youth in Canada.

4. This study reveals a strong correlation between financial barriers and persistence (re-enrolment) rates for poor and working class students in the United States. The researchers concluded "… the high-tuition, high loan approach … to higher education finance does not seem to be working." See "Social Class and College Costs: Examining the financial nexus between college choice and persistence." Michael B. Paulsen and Edward P. St. John, *The Journal Of Higher Education*, Vol. 73, No. 2, (March/April 2002).

5. See Kane's "College-Going and Inequality: A literature review", paper for the Russell Sage Foundation, June 2001, and *The Price of Admission: Rethinking How Americans Pay for College* (November 1999) University of California Press.

6. *National Graduate Survey: A profile of young Canadian graduates*. Statistics Canada, February, 2003.

7. The following statement from *Knowledge Matters* reflects the federal government's acknowledgment

of the problem and a theoretical commitment to address it: "While overall post-secondary education participation rates have risen steadily until recently, a significant gap in participation in university is evident between lower, middle and higher income Canadians … Action is needed to address factors such as debt aversion, lack of information or the 'sticker shock' effect of high and rising educational costs that may discourage less advantaged Canadians from pursuing post-secondary education."

8. See Robert Klotz's testimony before the Senate Standing Committee on Banking, Trade, and Commerce in both June 1998 and June 2003. Klotz, in his capacity as chair of the Canadian Bar Association Insolvency Association, was particularly critical of the dubious manner in which the ten-year prohibition was introduced. The Standing Committee's final report in 1998 reflected Klotz's concern about the lack research and justification for the extension to a ten-year ban.

9. The full report of the Personal Insolvency Task Force is available online at http://strategis.ic.gc.ca

10. *The Funding Shortfall: Government expenditures on post-secondary education, 2002/03*. Canadian Association of University Teachers, March 2004.

11. *The Funding Shortfall.*

12. Department of Finance Canada *Tax Expenditures and Evaluations 2001*.

13. 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).

14. The most recent year for which interim statistics are presently available.

15. Canada Revenue Agency preliminary figures.

16. Those in the income bracket above $250,000 also benefited from an elimination of the 3% high-income surtax. This tax cut cost the federal treasury over $650 million, more than twenty times the amount allocated to the new low-income grant in 2004.

17. Department of Finance Canada *Tax Expenditures and Evaluations 2001*.

18. Department of Finance Canada *Tax Expenditures and Evaluations 2001*.

19. Department of Finance Canada *Tax Expenditures and Evaluations 2001*.

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

21. "The Impact of Federal Tax Credits for Higher Education Expenses" by Bridget Terry Long, 2002.

## List of Figures

## Summary of Recommendations

**RECOMMENDATION 1** • Increase the value of the low-income grant from 50% of tuition fees to 100% of tuition fees, while eliminating the $3,000 ceiling.

**RECOMMENDATION 2** • The federal government should eliminate the Registered Education Savings Plans, and the related Canada Education Savings Grant and Learning Bonds, and use the savings to finance a national system of needs-based grants.

**RECOMMENDATION 3** • The federal government should scrap the Millennium Scholarship Foundation and the Registered Education Savings Plans and use the funds to implement a national system of needs-based grants.

**RECOMMENDATION 4** • The federal government should remove the credit history assessment for Canada Student Loans Program eligibility.

**RECOMMENDATION 5** • The federal government should repeal the ten-year prohibition on bankruptcy for Canada Student Loan holders.

**RECOMMENDATION 6** • The federal government should, in consultation with the provinces, create a post-secondary education cash transfer payment for the purpose of reducing tuition fees and improving quality at universities and colleges. The transfer should be guided by the principles in a Post-Secondary Education Act.

**RECOMMENDATION 7** • The federal government should meet its treaty obligations with First Nations by fulfilling the post-secondary education funding needs identified by the Assembly of First Nations.

**RECOMMENDATION 8** • The federal government should cancel the education and tuition fee tax credit for those earning over $70,000 and apply the savings directly to a new national system of needs-based grants.