Canadian Federation of Students' submission to the

House of Commons Standing Committee on Finance

October 2005

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500,000 University and College Students

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Capilano Students' Union
Cariboo Student Society
Douglas College Students' Union
Emily Carr Institute of Art and Design Students' Union
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North Island College Students' Association
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University of Saskatchewan Graduate Students' Association
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University of Winnipeg Students' Association

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Brock University Graduate Students' Association
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Carleton University Graduate Students' Association
Student Association of George Brown College
Glendon College Student Union
University of Guelph Central Student Association
University of Guelph Graduate Students' Association
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Continued . . .

Members continued:

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Laurentian University Students' General Association

Association des étudiantes et étudiants francophones de l'Université Laurentienne

McMaster 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

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Ryerson Students' Union

Saint Paul University Students' Association

Scarborough Campus Students' Union

University of Toronto Graduate Students' Union

University of Toronto Students' Administrative Council

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Trent Central Student 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 Students' Union

Concordia University Graduate Students' Association

Post-Graduate Students' Society of McGill University

Maritimes

Acadia Students' Union

Cape Breton University Students' Union

Dalhousie Association of Graduate Students

Holland College Student Union

University of King's College Students' Union

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Mount Saint Vincent University Students' Union

University of New Brunswick Graduate Students' Association

Student Union of NSCAD University

University of Prince Edward Island Student Union

University of Prince Edward Island Graduate Student Association

Association générale des étudiants de l'Université Sainte-Anne

Newfoundland & Labrador

Grenfell College Student Union

Marine Institute Students' Union

Memorial University of Newfoundland Students' Union

Graduate Students' Union of the Memorial University of Newfoundland

College of the North Atlantic Students' Union

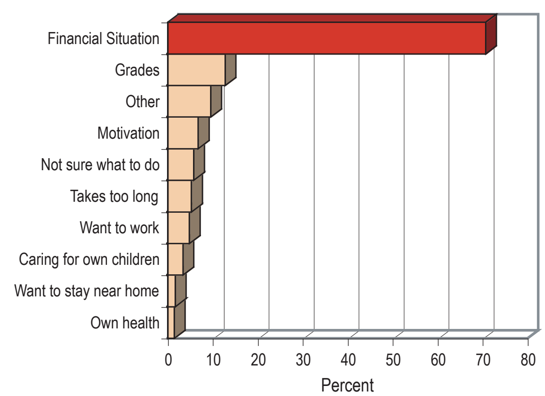
Introduction

Canada's Post-Secondary Education System is Characterised by Financial Barriers to Access

The crisis in accessibility in Canada's universities and colleges is driven by the cost of a post-secondary education. The defining difference between those who have access to post-secondary education and those who are forced to languish in low-paying, low-skill work is financial resources. Despite the elementary nature of this observation, there is real resistance among university and college administrators and government policymakers to accept this reality. Over 400,000 students in Canada are forced to borrow to finance their education every year. Average student debt for a four-year program is now nearly $25,000. However, that number will rise rapidly with the increase in loan limits introduced in the 2004 federal budget. The decision taken to substantially increase the amount that students can borrow will ensure that students from low- and middle-income households start their working lives saddled with debt. 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. Québec is the only remaining province with a comprehensive system of needs-based grants.

Although 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. We also know from the Youth in Transition Study (YITS) that among those who list a barrier to post-secondary education, over 70% list finances as the primary barrier (see Figure 1). In addition to addressing the reality of debt aversion, it is imperative that the federal government examine the real cost of student debt. A $25,000 student debt is actually a debt of almost $34,000 when accounting for interest payments over the amortization period (see Table 1). This number is also based on interest rates near an all-time low.

Figure 1: Identified Barriers to Post-Secondary Education for Secondary School Graduates



Source: Youth In Transition Survey 2002 (Statistics Canada)

It is important to note that the financial return of a post-secondary education over a lifetime has been greatly exaggerated by those who seek to justify higher tuition fees. Those who use a narrow economic equation to argue for higher fees imply that those who have a university or college credential automatically earn a six-figure salary. Although it is certainly true that those with post-secondary education earn more than those with just a high school diploma, the return on post-secondary education has actually remained relatively constant since the 1990s. Contrary to those who argue that education is simply an investment like any other, a post-secondary education is not the ticket to the highest income bracket, but rather the necessary pathway to a modest income.[1] In *Knowledge Matters*, Human Resources and Skills Development Canada estimates that over 75% of new jobs will require at least 2 years of post-secondary education by 2007. The average wage of those with such a credential is just over $30,000 per year compared to just over $25,000 for high-school graduates, hardly the kind of income that would justify $6,000 in tuition fees and $25,000 of student debt.[2]

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

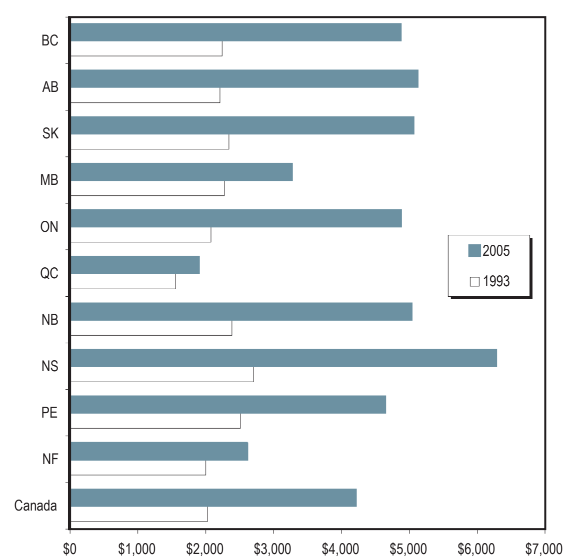
Principal	Repayment Period	Monthly Payment	Interest Paid	Total Cost of Education
$20,000	10 years	$232.22	$7,865.87	$27,865.87
$20,000	15 years	$179.77	$12,357.22	$32,357.22
$20,000	20 years	$155.06	$17,214.29	$37,214.29
$25,000	10 years	$290.27	$9,832.61	$34,832.61
$25,000	15 years	$224.71	$15,446.87	$40,446.87
$25,000	20 years	$193.82	$21,519.28	$46,519.28
$32,000	10 years	$371.55	$12,585.50	$44,585.50
$32,000	15 years	$287.63	$19,771.83	$51,771.83
$32,000	20 years	$248.10	$27,541.74	$59,541.74

Note: As the repayment period is extended, the cost of education for low-income earners increases

Recent socio-economic data also 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 tens of thousands of dollars to finance an undergraduate degree. A recent Canadian Association of University Teachers (CAUT) report documented this trend by noting that, as a percentage of disposable income, those in the bottom fourth of income earners devote nearly twice as much to education costs as those in the top fourth.[3] This disparity is confirmed by Statistics Canada's Post-Secondary Education Participation Study (PEPS), which determined that those from families in the top income quartile are twice as likely to attend university as those in the bottom quartile.

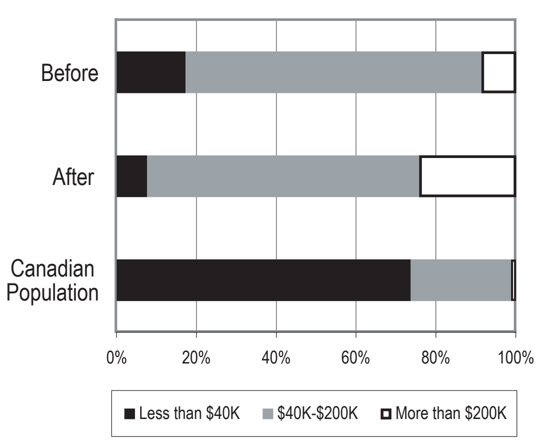
This evidence becomes more worrisome when it is viewed in the context of recent data on the growing gap between the rich and the poor in Canada. Statistics Canada's 2001 census report showed that the income of those in the bottom quintile remained stagnant through most of the 1990s while families in the top one-tenth of income earners made substantial gains. 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.[4] This statistic is troublesome on several levels: first, it means a decline in disposable income for those facing tuition fees that increased by 130% in the 1990s. 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 student loans. Thus, Canada has the most indebted generation in its history facing a real decline in their income.

Figure 2: Undergraduate Arts Tuition Fees, 1993 & 2005



The greatest factor driving higher student debt is tuition fees. Tuition fees are the largest cost students face as students. Tuition fees have more than doubled since 1993, making the average for tuition fees for an arts and sciences undergraduate degree over $4,000 per year (see Figure 2). Fees at that level will entrench 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 study undertaken by leading U.S researchers demonstrates that for every $1,000 increase in tuition fees, there is a 19% drop in persistence rates for low-income students.[5] A similar study conducted by economist Thomas Kane in California 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."[6]

Figure 3: Income Distribution of UWO Medical Students Before and After Tuition Fee Deregulation



In the Canadian context, a 1999 study found a direct link between tuition fee hikes 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.[7] 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 socio-economic 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 their 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 3). Thus, immediately after exorbitant tuition fee increases, there was a 50% decline in the participation of low-income students.

Student Financial Assistance: A Path to Access vs. Lifelong Debt

Any discussion of tuition fees must end with an assessment of student financial assistance. In what follows, we will provide an outline of the current policy context that will assist the committee in its task of modernising student financial assistance. The national and international data demonstrates unequivocally that the level of tuition fees and the model of student assistance are the determining factors in who has the opportunity to participate in post-secondary education. In addition to the research on the up-front cost of a post-secondary education, there is overwhelming evidence to suggest that grants (not loans) are the best way to promote access. In the largest study of its kind, British researchers followed low-income students through the post-secondary system and determined that the availability of grants was the primary factor in determining whether low-income students could finish their degree.[8]

A similar study in the United States, entitled *Empty Promises*, also argues that access to grants was the determining factor on whether or not low- or middle-income students would enter the system and persist until graduation.[9] In another UK study, researcher Stephen Machin tracked the 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, 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.[10]

By increasing loan limits in the 2004 budget, the federal government made clear its opinion 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. As we documented at the beginning of this section, the pressing and simple solution to this problem is a concerted federal and provincial effort to reduce tuition fees. Simply put, there will be very little political or financial incentive for provincial governments to reduce tuition fees until the federal government re-asserts its role in funding post-secondary education. A sustainable approach to federal funding is outlined later in this brief.

The grants program for low-income students introduced in the 2004 federal budget is a somewhat 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.

As fees continue to rise, the Canada Student Loan Program (CSLP) is under increasing pressure. One of the inevitable effects of deregulated tuition fees is that students studying professional programs are now far more likely to borrow (and very often borrow at maximum levels) under the CSLP. With tuition fees of $18,000 for law school at the University of Toronto and $16,000 for Dentistry at the University of Saskatchewan, and $11,000 for animation arts at Sheridan College, most modest- and middle-income students now rely on mortgage-sized student loans to fund their education. With professional programs charging fees at this level and average arts and science undergraduate fees approaching a national average of $5000, it is no surprise that the CSLP is under increasing pressure to meet the evolving needs of students studying in a variety of programs and entering or re-entering post-secondary education at different times in their adult life. For example, according to the Association of Community Colleges Canada (ACCC), the average age of a college student is 26. Therefore, those entering college are likely to have family obligations and prior debt and are not likely to be well-served by a loans-based system.

The financial pressure created by high fees has also led to some policy discussion about how Canada Student Loans are distributed and who benefits from the program. Since its inception, the CSLP has been a needs-based system of student financial assistance. Financial need is calculated by subtracting existing financial resources (savings and anticipated earnings from summer and part-time employment) from overall educational and living costs. The Government of Canada pays the interest accruing on Canada Student Loans during the full-time study period. Under this system, the interest subsidy largely flows to those students coming from a low-income household, but high fees have increasingly meant that borrowers from middle-income backgrounds are receiving a greater share of the interest subsidy. This development has resulted in calls for a revamped program of student financial assistance, one that focuses on those from the very lowest income homes and leaves those from modest-income families to fend for themselves.

The idea of excluding all but the most disadvantaged was proposed by former Ontario Premier Bob Rae in his 2004 review of post-secondary education in Ontario. In other words, Rae recommends a system in which a sliver of students from very low-income homes get substantial grants, while everyone else is left to rely on debt to finance their education.

The implications of such a proposal are stark: under Rae's plan, a family of three earning $36,000 a year would receive no non-repayable student financial assistance. Such a proposal would simply compound the debt of thousands of students and increase the number of students who are forced to take out loans. Rae also muses about the elimination of all interest subsidies, which would reduce the cost to government of future loan administration. For the family of three living on $36,000, Rae's solution is ostensibly a private system of for-profit lending.

Low-income students and those communities underrepresented in university and college should be at the centre of any student assistance model. However, the emerging trend that Canada's financial aid system must address one of either high-need or low-income must be rejected. Tuition fees are the primary cause of the rising costs faced by students and higher tuition fees are forcing more students to rely on financial assistance every year. It is preposterous to suggest that the best policy solution is to increase the cost of borrowing for all but those from the very poorest families. The federal government has a responsibility to ensure affordability for all of those unable to pay the up-front cost of a post-secondary education, but as long as tuition fees are allowed to continue to rise, the sustainability of any effective student financial assistance program is tenuous at best.

High tuition fees compromise access, overtax the CSLP, and create an artificial distinction between high need and low-income students. Virtually all of these problems can be traced back to reduced government funding. This situation is remedied by implmenting a long-term vision that includes tuition fee reductions and a broad system of grants.

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 RESP advertising—rather than the reality of other more immediate expenses (i.e. food, shelter)—is dubious at best. As with the public relations machine behind the Millennium Scholarships, the creators of the Learning Bond have placed a premium on optics over sound public policy. Gimmicky approaches like the Learning Bond will do nothing to erase the reality of generational poverty, housing shortages and massive rent inflation, and the myriad of real challenges that inhibit the participation of low-income families in post-secondary education. Until the federal government makes real commitment to addresses these issues, policies like the learning bond will seem cynical.

Families with incomes below $35,000 who bear children after 2003 will receive $500 towards the establishment of a Registered Education Savings Plan (RESP) and $100 each subsequent year the family remains "low-income". By the federal government's own estimates, the maximum benefit of the Learning Bond/RESP program will be approximately $3,000 in 2004 dollars. In other words, the most a low-income family can hope for from a Learning Bond is 75 % of one year of tuition fees. Moreover, the "savings" in a Learning Bond may 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 implications of the Learning Bond. Participant organisations were unanimous in their opposition to the proposal to increase federal spending on flawed savings programs.

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 students with the highest need by $12,000. Unfortunately, very little of the money set aside to reduce student debt has even made its way to students. Most provinces have simply ignored the non-binding "gentleman's agreements" signed with the Foundation. In British Columbia, Saskatchewan, Ontario, Prince Edward Island, and Nova Scotia students are seeing little or no net 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 recalcitrant provincial governments to use Foundation funds to reduce student debt. These three provincial governments, with the blessing of the Foundation, have simply reneged on their agreements to invest Foundation funds into student financial assistance.

In addition to gaping operational failures, there are also mounting concerns about the Millennium Foundation's lack of transparency. The Foundation has a $10 million research budget but it has consistently refused to release any detailed information about how it disperses funding for research projects. This is particularly disconcerting given that the Foundation is awarding lucrative "no bid" contracts to former employees.

In addition, the Foundation's research project is heavily biased toward researchers who favour higher tuition fees and student debt. Therefore, only those who support the Foundation's ideological positions can compete for research funding or speaking slots at Foundation conferences. Despite receiving over $2.5 billion in taxpayer funds, the Foundation operates like a private corporation—accountable to nobody but a largely hand picked and pliant board. The structure of the Foundation, then, allows it to bypass the most elementary standards of transparency and accountability in its day-to-day functioning.

The Canadian Federation of Students is not alone in its concern about the fiscal and operational accountability of the Millennium Scholarship 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 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.

The MSF is a failed experiment in contracting out student financial assistance. Unfortunately, it has been low-income students and their families that have suffered the consequences of this cynical exercise. 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 a needs-based grant administered by the Canada Student Loan Program.

RECOMMENDATION #2—*The federal government should scrap the Millennium Scholarship Foundation and the Registered Education Savings Plan 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. Therefore, it is punitive and counter intuitive to disqualify those who are the most in need of post-secondary education or training from receiving student financial assistance. The federal government has failed to distinguish between those in legitimate financial hardship and 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 #3—*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. That budget committed to a Debt Reduction in Repayment program (DRR) supposed to help over 12,000 students per year. Touted as a method of reducing unmanageable debt after graduation, the stringent eligibility criteria has ensured that less than 500 students per year benefited from the program in its first four years.

In 2004, the Department of Finance finally acknowledged this problem and changed the eligibility requirements for DRR to bring them in line with the Interest Relief program. Unfortunately, many of those who should have legitimately qualified for Debt Reduction in the past five years will have defaulted on their loans, and be rendered ineligible for DRR under the revised criteria. In addition, despite Paul Martin's promise to assist 12,000 borrowers per year, there is no provision to make the current criteria retroactive. Given it took over five years to implement the program as promised, it is only fair that those who applied and were denied under the old criteria should be allowed to re-apply for those years under the new rules.

RECOMMENDATION #4—*The federal government should allow previous applicants who were denied DRR between 1999 and 2004 to reapply and be assessed retroactively using the new criteria.*

Bankruptcy and Insolvency Act

The provisions of the Bankruptcy and Insolvency Act were designed to offer 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 situation makes it impossible for them to meet their obligations. However, a ten-year prohibition introduced in the 1998 "education budget" deprive students of their rights under the law. The effects of the 1998 changes to the Bankruptcy and Insolvency Act (BIA) have 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 is widely criticized by legal and bankruptcy professionals.

In the spring of 2003, Industry Canada and the Senate set out to examine all aspects of the BIA, including the ten-year prohibition on student loan bankruptcy. In both cases, it was eventually recommended that students be entitled to a hardship hearing within one year of graduation and that the general prohibition be lowered from ten years to five years.

In June 2005, the federal government finally responded to these mounting concerns with the introduction of a proposed change to the Bankruptcy and Insolvency Act. The bill proposes a reduction in the prohibition from ten to seven years. Although a belated acknowledged of the misery caused by the law, reducing the prohibition from ten to seven years is a cosmetic change to a patently unfair bill.

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

Federal Transfers for Post-Secondary Education

A Word from the Prime Minister

During a national CBC television broadcast on June 4, 2004, Prime Minister Paul Martin said that the Canada Social Transfer should be split to create a distinct transfer payment to the provinces for post-secondary education. 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. This 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.

The Federal Government in Retreat

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 the name of federal deficit reduction, billions were cut from post-secondary education and training during the 1990s. Provinces struggled with the increased burden and passed those costs on to students and their families. In today's dollars, federal cash contributions for post-secondary education are now 50 percent lower than in 1982[11].

As a direct result, tuition fees at Canada's universities more than doubled in less than a decade. Thus, while claiming to eliminate Canada's budgetary deficit, that amount has been shuffled off the national books and onto the backs of students in the form of increased student debt. The devastating results on access and student debt were reviewed in detail in the previous section.

Towards a Post-Secondary Education Transfer

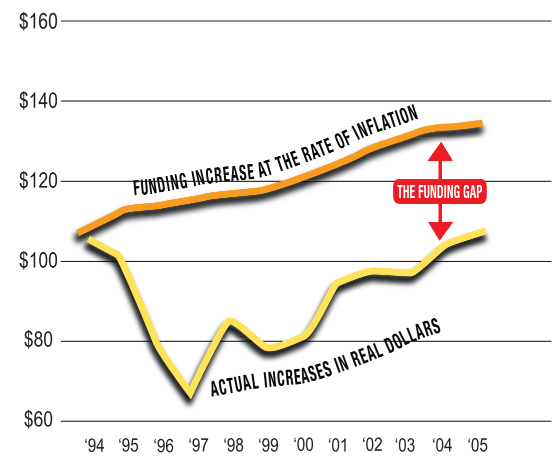
Recent federal surpluses have not been used to restore the funding cut from post-secondary education in the 1990s. The federal government has made minor adjustments in areas of undisputed federal jurisdiction (ie. income tax), but has failed to make any effort to engage provincial governments in negotiations to improve the quality and accessibility of Canadian universities and colleges.

The federal government has a clear constitutional role in the core funding of universities and colleges. The Prime Minister has responded to the call of the Canadian Federation of Students for a post-secondary education transfer, but the conditions and commitments placed on 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 provincial misallocation of federal post-secondary education funding.

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 (see Figure 4). That represents an immediate investment of $1.2 billion per year. In the medium term, the federal government should return spending levels for post-secondary education to 0.5% of gross domestic product, which will require an additional $2.8 billion.

Figure 4: Per Capita Transfers for PSE, 1994–2005



Provincial premiers have recently made unmistakable signals that they are interested in exploring further collaboration with the federal government to improve the affordability and quality of post-secondary education. The federal government must use this historic opportunity to reach a new agreement on transfers for post-secondary education.

2005 Budget Amendment

The majority of Canadian students are currently protected by a tuition fee freeze. Most provinces have taken steps to curb tuition fee increases, a move that signals that governments of all political stripes are taking action to address the financial barriers posed by tuition fees. This is precisely the policy shift in the provinces that the federal government must support and encourage with fiscal commitments.

The 2005 federal budget amendment is an important piece of legislation because it furthers the policy goal of reducing tuition fees. It also re-establishes the federal government's legitimate role in financing access to post-secondary education. Finally, the budget amendment's goal of reducing tuition fees should jump-start negotiations with the provinces on the issue of a new transfer for post-secondary education.

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 set out in a Post-Secondary Education Act.*

Aboriginal Education

The Assembly of First Nations estimates that nearly 10,000 First Nations students are unable to get funding through the Post Secondary Student Support Program (PSSSP) each year. Figure 5 illustrates the shrinking number of recipients of the PSSSP. Although many provinces have frozen tuition fees, post-secondary education remains beyond the financial reach for thousands of Aboriginal students. Reduced funding and rising tuition fees are key factors in the stagnation of Aboriginal enrolment in post-secondary education since the mid-1990s.

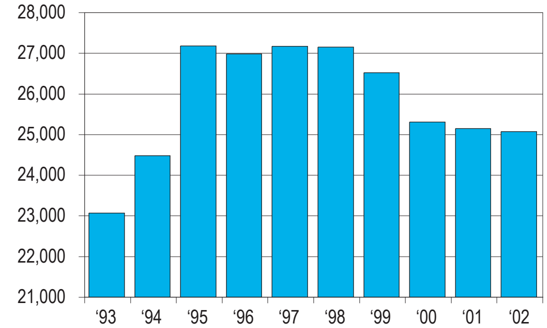
According to the 2005 Alternative Federal Budget[12]:

> The budget for the PSSSP program needs to be increased to allow more Aboriginal students to obtain post-secondary education, and status-based restrictions to the program must be eliminated. Funding for the PSSSP program should be indexed to the growth in the Aboriginal youth population.

The concerns of Canada's Aboriginal leaders were echoed in the 2004 Report of the Auditor General. The Auditor General's office concluded that the PSSSP's allocation does not ensure equitable access, in part because Indian and Northern Affairs does not collect enough data on enrolment to measure the program's effectiveness.

The situation of Aboriginal students in Canada is unsatisfactory and getting worse. The federal government must move swiftly to offer greater non-repayable financial assistance in conjunction with other treaty obligations.

Figure 5: Post-Secondary Student Support Recipients 1993–2002



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

Post-Secondary Education Tax Credits

Since the mid-1990s, the federal government has increasingly looked to tax expenditures as a substitute for directly allocated student financial assistance. In total, federal tax expenditures for post-secondary students have grown from $566 million in 1996 to more than $1.46 billion in 2005. This represents a 213% increase in real dollars and more than the total amount the federal government will spend on upfront grants this year[13].

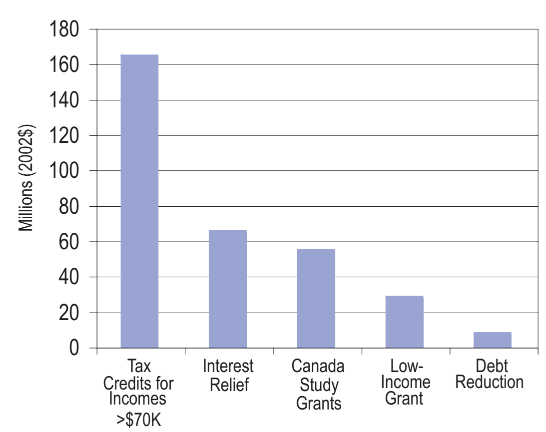
Despite their large price tag, federal tax expenditures do virtually nothing to either improve access to post-secondary education or relieve student debt. Moreover, since everyone who participates in post-secondary education qualifies for tax credits regardless of financial need, the federal government is diverting vast sums of public funding where they are not necessarily required.

This massive public expenditure, if offered as upfront grants, could deliver significant financial assistance to students with the greatest financial need. For example, if every Canada Student Loan recipient received a $3,000 grant, the cost would be approximately $1.13 billion per year. In other words, if the amount of money the federal government spent on the tuition fee and education tax credit each year ($1.15B) was simply shifted to the "front-end" in the form of grants through the Canada Student Loans Program, student debt could be reduced by 41%.

Helping Those Who Need Help the Least?

The Department of Finance estimates that transferred amounts account for almost half the total value of education and tuition fee tax credits claimed[14]. In total, individuals with incomes over $70,000 claimed more than $164 million in federal education and tuition fee tax credits for the 2002 taxation year, and most of this total was likely claimed as amounts transferred from students to family members. This $164 million tax break to high-income parents is more than double the amount spent in 2002 on the federal Interest Relief program, and triple what the government spent on Canada Study Grants for high need students (see Figure 6).

Figure 6: Comparison of Federal Spending on Student Aid



With such a substantial portion of post-secondary education credits being claimed as amounts transferred to family members, there is no guarantee that the full value of these credits is even being applied to education-related expenses.

RECOMMENDATION #8—*The federal government should cancel the education and tuition fee tax credit and apply the savings directly to a new national system of needs-based grants.*

Conclusion

This document has demonstrated that the high upfront costs of post-secondary education dissuade tens of thousands of young people from applying for university and college, and force thousands more to 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 ineffective student aid programs.

The Canadian Federation of Students supports the Prime Minister's plan 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, 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. 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".

2. For a more detailed overview of the "return" on a post-secondary education see Statistics Canada's *Relative Wage Patterns Among the Highly Educated in a Knowledge Based Economy*, September 2004. Also see the Statistics Canada 2001 Census for the most detailed overview of average earning relative to education level.

3. See "University and College Affordability: How and why have fees increased?" *Education Review.* Canadian Association of University Teachers.

4. 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.

5. This study also 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).

6. Thomas Kane, an economist at the University of California at Los Angeles, examines price sensitivity for tuition fee hikes in the public college system in California. The key portion of Kane's findings suggests that this drop comes "almost exclusively from Latino, African American, and low income students". See "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.

7. Report of the 1999 Survey of Medical Students. University of Western Ontario Department of Epidemiology and Biostatistics, May 1999.

8. *Widening Participation the Experience of Low-Income Students in Higher Education*. Vanessa Fitzgerald and Andrew Hannan (University of Plymouth), Arthur Baxter and Sue Hatt (University of the West of England, Bristol), May 2004.

The study offers a comprehensive set of data on the effect of grants on persistence (re-enrolment). The study demonstrates a very clear link between the availability of non-repayable student financial assistance and the ability of low-income students to finish a degree or diploma by tracking the path of low-income students at two universities in Southwest England. In particular, the researchers examine the effect of the grant available to low-income students to cover tuition fees. After carefully examining the persistence rates at both institutions the following unequivocal conclusion was reached:

> "The most interesting finding of this study arises from the data in Table 4 that compares the continuation rates of students with and without bursaries. Taking all students regardless of their fee support status, bursary students had higher rates of continuation than those without awards and this was consistent overall and at both institutions" (p. 12).

9. *Empty Promises: The Myth of College Access in America.* United States Advisory Committee on Student Financial Assistance, June 2002.

This report was written by the independent committee appointed by the United States Congress to assess student financial assistance. It concludes that financial barriers are the main obstacles preventing low and moderate income Americans from having access to post-secondary education. The report predicts growing losses of college qualified high school graduates and wider income-related gaps in participation and degree completion unless need-based grant aid is increased significantly.

Empty Promises has direct relevance to the Canadian debates, as it explicitly contradicts the idea being put forward that addressing "non-financial" barriers is more important to improving access than reducing financial barriers to participation. The report challenges the effectiveness of the types of "early intervention" programs advocated by the Millennium Scholarship Foundation (such as mentoring and academic preparation programs) as policy options for improving access. The US Advisory Committee is clear that "early intervention" programs are only useful if accompanied by large increases to non-repayable student aid. In the Committee's words:

> "The primary cause of today's college access and persistence problem is the excessive level of unmet financial need and associated work and loan burden for low and moderate income high school graduates ... [to] make progress in the long term, early intervention must include an access to college guarantee for low and moderate-income families".

10. "Unto them that hath ... ", Stephen Machin, *Centrepiece Magazine*, Winter 2003, Centre for Economic Performance, London School of Economics.

11. "The Growing Funding Gap". *Education Review*, August 2005, Canadian Association of University Teachers.

12. *Alternative Federal Budget 2005: It's time*. Canadian Centre for Policy Alternatives.

13. *The Canada Student Loan Program Actuarial Report* (2004) and Canada Revenue Agency preliminary figures.

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