

Canadian Federation of Students' submission to the

2007 Pre-budget Consultations

August 2007

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The Canadian Federation of Students
88 Member Students' Unions
500,000 University and College Students

British Columbia

University of British Columbia Students' Union (Okanagan)
Camosun College Student Society
Capilano College Students' Union
Douglas College Students' Union
Emily Carr Institute of Art and Design Students' Union
King Edward Students' Union
Kwantlen University-College Student Association
Malaspina University-College Students' Union
College of New Caledonia Students' Association
North Island College Students' Association
Northern Lights College Students' Association
Northwest Community College Students' Association
Okanagan College Students' Union
College of the Rockies Students' Union
Selkirk Students' Association
Simon Fraser Student Society
Thompson Rivers University Students' Union
Vancouver Community College Students' Union
University of Victoria Students' Society
University of Victoria Graduate 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 Students' Union
University of Manitoba Graduate Students' Association
University of Regina Students' Union
Association étudiante du Collège universitaire de Saint-Boniface
University of Saskatchewan Students' Union
University of Saskatchewan Graduate Students' Association
University of Winnipeg Students' Association

Ontario

Algoma University Students' Union
Atkinson Students' Association
Brock University Graduate Students' Association
Carleton University Students' Association
Carleton University Graduate Students' Association
Association étudiante de la Cité collégiale
Student Association of George Brown College
Glendon College Student Union
University of Guelph Central Student Association
University of Guelph Graduate Students' Association

Continued . . .

Members continued:

Lakehead University Student Union
Laurentian Association of Mature and Part-time Students
Laurentian University Graduate Students' Association
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 University Students' Union
Continuing Education Students' Association of Ryerson
Saint Paul University Students' Association
University of Toronto at Scarborough Campus Students' Union
University of Toronto Graduate Students' Union
University of Toronto Students' Administrative Council
Association of Part-Time Undergraduate Students of the University of Toronto
Trent University 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 Students' Alliance
University of Windsor Graduate Students' Society
University of Windsor Organisation of Part-time University Students
York Federation of Students
York University Graduate Students' Association

Québec

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

Executive Summary

Access to post-secondary education continues to be undermined by high tuition fees and student debt. Yet access to education is more important than ever to enhancing Canada's competitiveness, increasing its standard of living, and reducing socioeconomic inequalities.

Successfully reducing financial barriers to university and college will require the federal government to, in close cooperation with the provinces, develop strategies that both increase financial commitments, and make them count.

This brief examines the dramatic government divestment from post-secondary education in the past fifteen years, its impact on access, and policy changes that will restore affordable and high-quality post-secondary education.

Recommendations are as follows:

1. The federal government should phase out the education and tuition fee tax credit and apply the savings directly to a new national system of needs-based grants.
2. The federal government should replace the Millennium Scholarship Foundation with a national system of needs-based grants.
3. The federal government should immediately remove the funding cap on the Post-Secondary Student Support Program and adopt all of the recommendations in the Sixth Report of the Standing Committee on Aboriginal Affairs and Northern Development regarding post-secondary education.
4. 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.

Background: Taxation for a prosperous future

Canadians have long seen our system of post-secondary education as a vehicle for social opportunity. The expansion of access to Canadian universities and colleges was a direct result of substantial and sustained public investment beginning in the 1960s, prior to which, access to education in Canada was defined almost exclusively by gender and income. That changed because the federal government made access to education a fiscal priority.

In order to reduce economic inequalities among regions and individuals, as well as increase its competitiveness internationally, the federal government must prioritise affordable post-secondary education. The most equitable way to finance a widely accessible post-secondary education system is through the progressive income tax system.

Erosion of the revenue base

The country's progressive system of taxation, where affluent Canadians pay a higher percentage of their income in tax than do lower-income Canadians, is necessary for the equitable well being of all members of society. Canada's tax system has become increasingly eroded as continuous tax cuts introduced since the early part of the decade take their effect. The 2006 federal budget alone introduced \$20 billion in tax cuts over two years, even though funding for social programs, including post-secondary education, is still well below 1990 levels. New tax cuts introduced in the 2007 federal budget will exceed social spending by a two-to-one margin.

As the government continues to shrink its fiscal capacity through the tax base, tax cuts have also become more arbitrary and seemingly dependent on the political opportunity of the day. For example, income splitting only provides increased benefit for relatively affluent couples. Tax schemes such as these, targeting specific groups without

economic rationale, are creating unfairness in the tax system.

The reduced fiscal capacity caused by tax cuts introduced in the last number of years will eventually make it impossible for the federal government to address the concerns of Canadians. Programs geared at reversing inequality, improving health care and post-secondary education, and protecting the environment are issues that form the top of the priority list for Canadians, yet are largely absent from recent federal budgets.

As the Canadian Centre for Policy Alternative's Alternative Federal Budget (AFB) points out, the most problematic tax cuts introduced in the last two years are those that do little to help those most in need. The AFB offers a number of measures to enhance tax fairness, including more revenue from the affluent and corporations, and directing these additional funds at programs to support low-income Canadians.

User fees are a barrier: Let the income tax system do its job

The Canadian Federation of Students has long advocated that post-secondary education and other social programs should be paid for through a progressive system of taxation rather than through up-front fees. Graduates of post-secondary education earn more throughout their lifetime, thereby contributing more in taxes to pay for the cost of their education. Such a system is required in order to fund the various social programs necessary for the advancement of the country both socially and economically, and also to reduce the up-front barriers of post-secondary education. In this sense, the progressive taxation system should be strengthened.

The accessibility gap 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 do not is financial resources. Despite the elementary nature of this observation, there is strong resistance among university and college

administrators and some government policy-makers to accept this reality. Approximately 350,000 students in Canada are forced to borrow to finance their education every year. Average student debt for a four-year program now ranges between \$21,000 to \$28,000 depending on the province of study.

The earning premium for those with a post-secondary education has been grossly exaggerated by advocates for higher tuition fees. The vast majority of university and college graduates are average income earners. The exceptions, both the high and low-income earning graduates, will be taxed accordingly in ways that are fair and reflective of their income. Conversely, tuition fees act as an additional tax that is blind to actual financial resources or future earnings. Thus, it is the tax system, not user fees, that should be counted on for individual and collective support for accessible post-secondary education.

Post-Secondary Education Tax Credits and Savings Schemes

Since the mid-1990s, the federal government has increasingly looked to tax expenditures as a substitute for direct funding for student financial assistance. In total, federal tax expenditures for post-secondary students have grown from \$566 million in 1996 to almost \$1.63 billion in 2007. This represents an increase of almost 288% (real dollars), and more than the total amount that the federal government will spend on direct student financial aid this year.¹

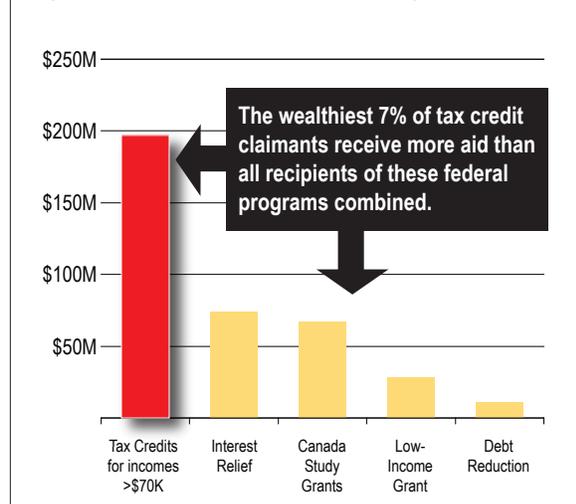
Both the 2006 and 2007 federal budgets have introduced tax and savings scheme changes for students enrolled in post-secondary education. The 2006 budget introduced a non-refundable tax credit of \$65 per month for full-time students and \$20 for part-time students to defray the cost

1. Includes Education Tax Credit (present, carry-forward, and transferred), Tuition Fee Credit (present, carry-forward, and transferred), scholarship exemptions, Registered Education Savings Plans, and the Student Loan Interest Credit using the Department of Finance's Tax Expenditures and Evaluations 2004.

of textbooks. The net benefit for a student enrolled full-time for eight months is expected to be a mere \$80, less than the cost of one textbook per academic year. However, most students do not earn enough to pay income tax, and will derive no benefit whatsoever from an additional non-refundable tax credit.

The 2007 budget made minor changes to the Registered Education Savings Plan (RESP) and the Canada Education Savings Grant (CESG), eliminating the \$4000 limit on annual RESP contributions and increasing the lifetime limit from \$42,000 to \$50,000. The maximum amount of the CESG has also increased from \$400 to \$500. The change in CESG contributions means that a family wealthy enough to save \$2000 per year for each child for 17 years will now receive a tax-free grant of \$8500 from the government of Canada towards the child's entire post-secondary education.

Figure 1: Comparison of Federal Spending on Student Aid



Despite their large price tag, federal tax expenditures and savings schemes do virtually nothing to either improve access to post-secondary education or relieve student debt. Low-income students will not benefit from non-refundable tax credits. Moreover, since everyone who participates in post-secondary education qualifies for tax credits regardless of financial need, the federal government is focusing on directing public fund-

ing where it is not necessarily improving access for students who cannot afford high tuition fees. Both the RESP and the CESG have been widely criticized as savings programs that disproportionately benefit wealthier families. Savings patterns of families confirms this criticism, as a majority of RESP holders are above average income earners. These massive expenditures, if offered as upfront grants, could nearly eliminate the need for students to borrow. For example, the Canada Student Loans Program estimates that it will lend approximately \$1.92 billion in fall 2007.² In other words, if the amount of money the federal government spent on the tuition fee and education tax credit each year was simply shifted to the “front-end” in the form of grants through the Canada Student Loans Program, student debt could be reduced by approximately 70%.³ Additionally, the federal government expects to spend \$540 million on the CESG in 2007—approximately what it would cost to give a \$5,000 grant to one in three student loan recipients.

Recommendation 1: The federal government should phase out the education and tuition fee tax credits, RESP and CESG programs and apply the savings directly to a new 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 students with the highest need by \$12,000. Since its formation, the Foundation has proven itself to be both an operational failure and mired in controversy over public accountability.

The federal government’s desire for “visibility” in the area of post-secondary education funding led

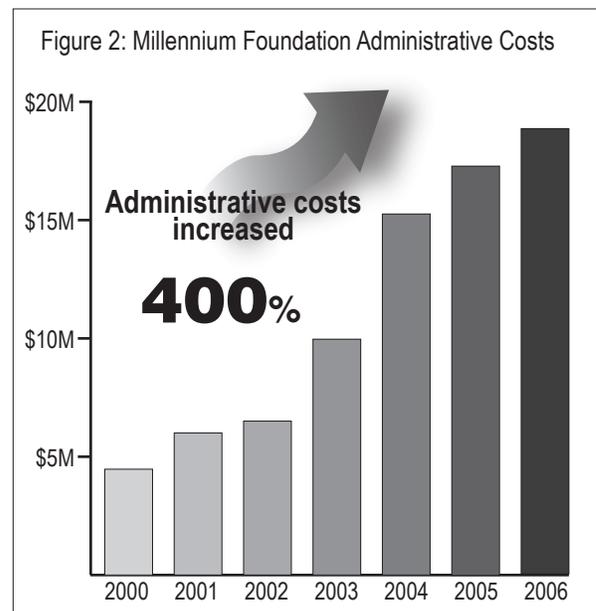
2. Based on loan uptake calculations in the 2004 Actuarial Report of the Canada Student Loans Program

3. This calculation is used for comparative purposes only. It does not take into consideration student loan borrowers in repayment, who also deserve debt relief

to the creation of a new and unnecessary bureaucracy, when those funds could have easily and more efficiently been allocated through the existing CSLP infrastructure. Instead, the MSF has resulted in a provincial patchwork of programs that struggle to be classified as financial aid.

There has been no consistent application of funds in a way that benefits students with demonstrated financial need. Most provinces have simply ignored the non-binding “gentleman’s” agreements that were intended to ensure that MSF funds were not clawed back through reduced provincial benefits. An external review of the Foundation that was conducted in 2003 found that the MSF has had a “limited and indirect to non-existent” impact on access to post-secondary education.

In addition to widely-recognised operational failures, there are also concerns about the Foundation’s lack of transparency and accountability. According to the Foundation’s annual reports, administration costs alone have quadrupled from \$4.63 million in 2000 to approximately \$18.8 million in 2006 (see Figure 2).



This lack of accountability is particularly disconcerting given that the Foundation is awarding lucrative, “no bid” contracts to former employees. In 2005, the Foundation awarded a \$4 million contract to two former employees who left the

Foundation to work at a U.S.-based consulting firm—an amount that could have funded over 1,300 scholarships for students in need.

Canada Student Loan Program Review

The 2007 federal budget announced a review of the Canada Student Loans Program (CSLP). According to the CSLP, more than half of all post-secondary students require some financial assistance, three-quarters of those students believing that they would be unable to participate in higher education without this assistance. The Canadian Federation of Students is proposing that the government increase the amount of grants that are available to students who need the most financial help. A national system of need-based grants would reduce daunting levels of student debt and improve access to universities and colleges. This can be accomplished by replacing the Millennium Scholarship Foundation with a national system of need-based grants administered through the Canada Student Loans Program.

Recommendation 2: The federal government should replace the Millennium Scholarship Foundation with a national system of need-based grants through the Canada Student Loans Program.

Aboriginal Students

The federal government has a fiduciary responsibility to provide for the well being of Aboriginal people. This includes post-secondary education. Although the federal government has treaty and other obligations to educate First Nation peoples, resources for post-secondary education fall short of meeting the needs of Aboriginal communities.

While federal statistics consistently show an 18% gap between non-Aboriginal and First Nations higher education completion, funding for the department of Indian and Northern Affairs' Post-Secondary Student Support Program has remained frozen at the same level since 1996, with an inadequate 2% annual increase. The Sixth

Report of the Standing Committee on Aboriginal Affairs and Northern Development outlined a number of recommendations and proposals to increase access to post-secondary education for Aboriginal People. The report also pointed to the insufficient funding for the Post-Secondary Student Support Program in meeting the growing needs of Aboriginal People.

Recommendation 3: The federal government should immediately remove the funding cap on the Post-Secondary Student Support Program and adopt all of the recommendations in the Sixth Report of the Standing Committee on Aboriginal Affairs and Northern Development regarding post-secondary education.

Federal Cash Transfers for Post-Secondary Education

There is a growing consensus in the post-secondary education community that the current design of transfer payment mechanisms is insufficient to meet federal objectives for post-secondary education. The 2007 federal budget announced the largest increase to core transfer payments for post-secondary education in fifteen years; however, ensuring accountability with the funding through a separate and dedicated transfer, guided by federal legislation, is a necessary step towards improving the accessibility and quality of Canadian universities and colleges.

Canada Social Transfer

The 2007 federal budget increased core transfer payments to the provinces for post-secondary education by approximately 40% in fiscal year 2008. Although this increase is the largest in recent memory, cash transfers for post-secondary education are still roughly one billion dollars short of 1992 levels when accounting for inflation and population growth. If the federal government were to contribute the same share of its program spending to post-secondary education when measured as a share of the Gross Domestic Product as it did in 1992 (0.41%), the federal

government should be spending \$6 billion per year in cash transfers for post-secondary education—\$2.6 billion more than the 2007 proposed increase.

The Canadian Federation of Students continues to assert that the federal government has a definite historic and constitutional responsibility to ensure equality of access to post-secondary education in every province.

Towards a Post-Secondary Education Act

With the increase in core funding announced in the 2007 federal budget, the next logical step for the federal government is to institute federal legislation to govern the funding set aside for post-secondary education. The federal budget explains that the delay in funding gives time for the federal government to “identify priority areas for investment” with the provinces. Moreover, although the increased funding has been “earmarked” for post-secondary education, there is nothing holding provincial governments to actually spending the increased funding on post-secondary education in the face of competing priorities. If the federal government is serious about accountability, it must support a Post-Secondary Education Act.

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, much like Bill C-398. These conditions must commit the provinces to upholding principles similar to those of the Canada Health Act: public administration, affordability, comprehensiveness, democratic governance, and academic freedom. In return for upholding these principles, provincial governments would receive increased and predictable funding from the federal government.

Provincial premiers have signaled 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 willingness to reach an agreement on transfers for post-secondary education, in part by restoring cash transfer levels to 1992 levels. Most importantly, the federal government and provincial governments should establish long-term objectives, including reducing tuition fees.

Recommendation 4: 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.

Conclusion

If the federal government is prepared to focus on taxation in the year ahead, it must make strengthening the progressive income tax system a top priority. This does not necessarily require tax reductions, and in fact may require rolling back previous tax cuts for the wealthiest Canadians and corporations.

In the area of post-secondary education, balancing the tax system first means using every policy instrument at the government’s disposal (grants, provincial transfers) to reduce the high cost of post-secondary education. In doing so, university and college graduates can graduate debt-free, yet contribute their fair share to tomorrow’s colleges and universities via income tax. The model of high user fees for post-secondary education is simply unworkable and inequitable.