Canadian Federation of Students

submission to the

House of Commons
Standing Committee on Finance

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INTRODUCTION

The unprecedented growth of the Canadian economy over the past six years has created unique challenges and opportunities. On June 1, 2000 the gross domestic product reached the benchmark of $1 trillion and the past three federal budgets have produced surpluses of over $5 billion. Using conservative economic indicators, the Canadian Association of University Teachers estimates the surplus will grow to at least $34.6 billion over the next five years. Despite these achievements the gap between the rich and poor in Canada continues to widen. According to the *Canadian Fact Book on Poverty* there are 1.3 million more poor households in Canada than there were 20 years ago. Between 1981 and 1997, the rate of poverty among young families more than doubled from 21.7 per cent to 46.1 per cent.

During this same period of economic expansion and increased poverty, the cost of post-secondary education has dramatically increased and access to education for low and middle income Canadians is declining. An important indicator about the mismatch between macro-economic prosperity and the declining opportunities for low and middle income Canadians can be found in recent trends in post-secondary education policy. Regrettably, Canada's system of post-secondary education is working to exacerbate the gap between those who prosper in the new economy and those who languish in low-paying, unfulfilling work. In the past three budgets the federal government has undertaken a variety of new policy initiatives under the banner of the "new economy" and the challenge of providing opportunities for all. However, as we shall outline, these measures have, for the most part, been cosmetic.

Besides calling for more core funding, this brief will make the case that the money the federal government is investing in post-secondary education and research could be allocated more effectively. In addition, though the federal government has restored a portion of the funding cut to the Canada Health and Social Transfer (CHST) in 1994, almost none of this new funding is being used for public colleges and universities. The federal government has yet to implement any framework with the provinces that works toward national standards of quality and mobility. Before such a framework can be built the federal government must find a means of making the provinces more accountable for the funds transferred under the CHST designed to fund post-secondary education.

In the light of the trends outlined above it is regrettable that the Standing

Committee on Finance has recommended that almost all of the accrued surplus for the next three years be allocated for tax cuts. Tax cuts will do nothing to address the growing income disparity in Canada and, more importantly, they limit the government's ability to properly fund programs like healthcare and post-secondary education that soften socio-economic divisions. In this brief we will outline how these recent policy measures are actually contributing to what Judith Maxwell called the 'social deficit' and why the basic tenor of federal government policy on post-secondary education is moving us further away from the democratic goal of a high quality system of universal education accessible to all.

This brief will be divided into three sections: Access to Post-Secondary Education; Research; and Skills and Training. In each section we assess current policy as well as offer proactive solutions to the problems endemic in our system of post-secondary education. The policy themes and recommendations that govern this brief will explore both the economic and social peril Canada invites by ignoring the crisis in post-secondary education.

ACCESS: OPPORTUNITY FOR ALL?

"Every Canadian who wants to learn should have the opportunity to do so. Students from lower income families are under-represented in our institutions of higher learning. Too many are deterred from pursuing higher education because of a fear of a large debt."

Paul Martin, 1998

The withdrawal of federal funding over the past decade has led to a steady decline in access to post-secondary education among low and middle income Canadians. Throughout the 1990's, the federal government pointed to high participation rates to argue that funding cuts have had no effect on access to post-secondary education. However, recent data suggests that there is a direct link between funding and accessibility. Between 1990 and 2000, tuition fees increased by a national average of 126%. During this same period, university operating revenues from governments fell by 25%.[1] Student debt also rose from an average of $8,000 in 1990 to $25,000 in 1998.

The effect of this paradigm shift in how education is funded has been felt most acutely by low and middle income Canadians. Canadians who are in the bottom 20% in terms of after-tax income now devote 23% of their after-tax income to tuition fees and educational expenses.[2] That figure represents a 64% increase from 1991. During this period, the after-tax income of this demographic decreased by 3% in real dollars.[3]

The downloading of educational costs from the collective pool of public resources to the individual has had a predictable effect on access. Over the past 18 months reliable data has emerged that tracks the effect of the public policy terms enumerated above. At the University of Western Ontario a study was undertaken to quantify the effects of tuition fee increases. The study documented the household income of two groups of students. The first were students entering Western's medical school in the first year in which tuition fees had been fully

deregulated, resulting in substantial fee increases. The second group were fourth year medical students who had entered the program three years earlier during a period when the fees were regulated and considerably lower. The study found that after deregulation, the participation rates of students from families with a household income of less than $40,000 dropped by more than 50% (from 17.3% to just 7.7%). Participation rates of students from very high-income families tripled, from 8.6% to 24.4%. A similar study at the University of Guelph found that the number of students entering the University of Guelph from homes with family incomes of $40,000 or less was 40% in 1987. That number had dropped to 16% by 1998.

The withdrawal of public funding and increased cost of post secondary education has had a particularly detrimental effect on aboriginal communities in Canada. Unemployment rates and other social determinants in aboriginal communities remain at levels near that of developing nations. A recent review of post secondary education by the Assembly of First Nations confirms that funding and opportunity are being denied to aboriginal Canadians who are least likely to afford the increased cost of tuition.[4] The study focused on the capping of band funding for post-secondary education and the effect that this cap has had on access to education for First Nations peoples. In addition, the report points to federal funding cuts as the primary reason why Canada's First Nations have been unable to expand the number of institutions devoted exclusively to the needs of aboriginal learners.

These findings provide conclusive evidence that tuition fees operate as a direct barrier to families at the low end of the socio-economic scale. In short, federal and provincial under-funding of education is creating yet another divide in Canadian society between those who have access to the skills, training, and experience of post-secondary education and those Canadians who are denied access for purely financial reasons. This mounting evidence supports the prescient claim of the *Maritime Provinces Higher Education Commission* in its study of accessibility in 1997:

> The research clearly demonstrates that the cost of post-secondary education and increasing debt levels are significant factors in the decision students make about whether or not to continue their studies beyond high school. Even more significant is the finding that students from lower income households are much more likely to be affected by financial issues when deciding to pursue or not pursue their education beyond high school (ii, 1997).

In the face of this mounting crisis the federal government has taken several modest steps to address the problem of accessibility. Before offering recommendations we will evaluate the effect these measures, in particular, the Registered Education Savings Program (RESP) and the Millennium Scholarship Foundation (MSF), are having.

In the face of mounting tuition fees and other individualised costs of education, the federal government recently extended the Registered Education Savings Program to include a national system of grants (Canada Education

Savings Grant-CESG) based on the ability to save. In addition to the forgone tax revenue of the original program, the federal government set aside a grant of 20% on the first $2000 deposited into an RESP. The grant totals $400 per year and continues until the year in which the child for whom the account is opened turns 17.

The addition of the grants program, along with a cessation of certain restrictions, increased participation in the program dramatically and represents a significant federal government expenditure on post-secondary education. Between 1998 and May 2001 the government of Canada spent $959,487,905 on direct grants. This figure does not take into account the cost of administering the program or the forgone tax revenue. Despite this public expenditure the participation rates of low and middle income Canadians are rapidly declining. Recent data from Statistics Canada demonstrates why the federal government is seeing such a poor fiscal and social return on this investment.

In an April 2001 study, entitled *Survey of Approaches to Educational Planning*, researchers tracked attitudes toward saving for a child's post-secondary education as well as the actual savings families were able to accumulate. The study controled for family income and parental educational attainment. In homes where the family income was less than $30,000, 80% of parents said they hoped to save funds for a child's education. However, only 18.7% of those parents were actually able to save. In homes with family income of over $80,000 researchers found that 95% of parents hoped to save for a child's education and that 62.6% actually were saving.

Figure 1. - Post Secondary Aspirations and Savings

Household Income	% of children whose parents hope they will attend post secondary institutions	% of children whose parents are saving for their PSE
<$30,000	79.8	18.7
$30,000-$49,000	85.8	37.4
$50,000-$59,000	90.6	45.6
$60,000-$79,000	93.4	52.6
$80,000+	95.0	62.6

Source: Statistics Canada, The Daily, April 10, 2001

These numbers confirm the case put forward by the Canadian Federation of Students in our submission to the Standing Committee on Finance last year. Through the available data we argued that the RESP program was in effect a national system of grants for the wealthy. The RESP is ostensibly a social program funded by all Canadians designed to reward those with the means to save. The aforementioned findings by Statistics Canada confirms this analysis and provides hard data to support the contention that the RESP and CESG programs are a regressive use of public funds that are doing virtually nothing to assist those Canadians most in need of the skills and training offered by post-secondary education. RESPs merely expand the already existing gap in Canada between the desire for post-secondary education and the ability to afford it. It is indeed perverse public policy to spend public funds on those who least need assistance while doing little or nothing to help those for whom post-secondary education remains only a dream.

The other policy measure taking up public resources is the Millennium Scholarship Foundation (MSF). Enshrined in the 1998 federal budget,

the MSF has had little or no impact on student debt in Canada. Since Finance Minister Paul Martin rose in the House of Commons and promised Canadians that the MSF would reduce a students' debt by $12,000 over a four-year program, the MSF has been mired in public relations gaffes and disputes with provincial governments. The complex public/private structure of the Foundation forced it to enter into negations with provincial governments to disburse approximately $250 million per year. When these negotiations were completed it became apparent that some provinces (Nova Scotia and Ontario in particular) were simply not going to use funds transferred from the MSF to relieve student debt. The creation of the MSF as a stand-alone body was designed to give the federal government a higher profile in the funding of post-secondary education. Consequently, the MSF has become a public relations vehicle that is not addressing the root problem of student debt. This, despite an endowment of $2.5 billion over ten years.

The Canadian Federation of Students is proposing that the funds currently being expended in the RESP and CESG programs, along with the Millennium Scholarship Foundation endowment, be rolled into a national system of needs based grants. If the program were to be administered through the current needs-assessment mechanism of the Canada Student Loan Program (CSLP) it would require no start-up funding and no increase to administrative costs. In addition, such a program of needs-based grants would be revenue neutral as we are proposing that it be funded with resources re-directed from the RESP and MSF budgets. This re-direction of funds would allow the federal government to provide an up-front grant to those most in need of financial assistance without adjusting any current budgetary projections.

Finally, years of under-funding by the federal government and provincial governments has led to increased reliance on the Canada Student Loan Program. As previously noted, student debt has skyrocketed to an average of $25,000 as students bear the brunt of funding shortages. In response to this increased pressure on the CSLP, the federal government has simply attempted to make the program more restrictive by instituting regressive policy measures under the guise of accountability.

In the case of the bankruptcy legislation, the federal government is attempting to address the crisis of student debt by criminalising students. This unconscionable legislation strips students of the very last financial protection offered under the law. The law introduces a fundamental inequity in the way Canadians are treated under the law. It is this provision that has compelled the Canadian Federation of Students to launch a Charter challenge before the Superior Court of Ontario to repeal this unjust and unconstitutional law. The provisions of the *Bankruptcy and Insolvency Act* are designed to offer a last hope to those unable to cope with debt. Under the Act, an individual must appear before a judge and present evidence under oath that their financial disposition makes it impossible for them to meet their obligations.

In 1997, the federal government undertook a review of the Act with the aim of enacting a two-year prohibition

on declaring bankruptcy. During the consultation period the Canadian Federation of Students and other groups made a compelling case against such a prejudicial change. Despite the consensus view that such changes would only lead to misery for those most desperate, the federal government enacted legislation setting out the two-year prohibition. Less than ten months later, without consultation or supporting reasons, the 1998 'education' budget legislation extended the ban to ten years. As it now seems clear that the Ministry of Finance initiated these changes, we are calling on the Standing Committee on Finance to recommend that this discriminatory law be repealed.

The cumulative effects of diminished funding to post-secondary coupled with policy initiatives like credit checks for student loans and changes to the Bankruptcy and Insolvency Act have created a crisis in student debt and additional accessibility problems for low and middle income Canadians. New policy that individualises the cost of higher education have only exacerbated the existing inequities. Successful ways to address these problems will have to be national in scope, and be sensitive to students who are most in need.

Recommendation #1:
The federal government should terminate the RESP program and institute the Canada Student Grants Program.

Recommendation #2:
The federal government should terminate the Millennium Scholarship Foundation and transfer the funds to the Canada Student Grants Program.

Recommendation #3:
The federal government should reverse discriminatory changes to the Bankruptcy and Insolvency Act.

Recommendation #4:
The federal government should abandon the practice of doing credit checks on Canada Student Loan applicants.

Recommendation #5:
The federal government should enact a Post-Secondary Education Act that enforces national standards of mobility, quality and accessibility.

RESEARCH: PUBLIC RESEARCH FOR PUBLIC DOLLARS?

"At a certain point…we don't have universities anymore, but outlying branches of industry. Then all the things that society turns to the university for—breadth of knowledge, far time horizons, and independent voice—are lost."

John Polanyi, Nobel Prize winning chemist at the University of Toronto

In the 2001 Speech from the Throne, the federal government committed to doubling spending on research and development over the next ten years. The announcement continues the trend of increased public investment in research. However, recent trends in federal government research policy gives rise to several concerns about who will benefit from this boom in spending.

Since freezing funding for Canada's three granting councils in the early and mid 1990's the federal government has

taken modest steps to re-invest in public research. In addition to replacing the Medical Research Council with the Canadian Institutes of Health Research, the federal government has brought the Social Sciences and Humanities Research Council and the Natural Sciences and Engineering Research Council back to 1995 levels.

While modestly investmenting in public research, the federal government increased funding for the Canada Foundation for Innovation (CFI) by $900 million. Introduced in the 1997 budget, the CFI funds research projects that are able to secure 20% - 60% of their funding from private industry. Under the current scheme, the CFI will only fund projects that are public/ private partnerships.

The rapid growth of the CFI has had four detrimental effects on research in Canada:

i) The CFI subsidises private, for-profit research in Canada by transferring hundreds of millions of research dollars to private industry. There is very little public accountability for the results of publicly funded research when kept secret for 'proprietary' reasons.
ii) The institutionalisation of public/ private research through the CFI is stifling public research in Canada,
iii) Public/private partnerships create a two tier system of education in Canada with large research universities triumphing over smaller, generally regionally based, institutions.
iv) Humanities funding is falling farther and farther behind other academic disciplines like engineering and computer science.

Two recent examples highlight the dangers of public/private partnerships. Both examples are drawn from the University of Toronto. The story of the University of Toronto is an instructive example in assessing the cost of public/ private partnerships. The University of Toronto has been able to raise a staggering amount of money over the past ten years in private and corporate donations. Most of this fundraising activity has been spurred by the withdrawal of provincial and federal funding and the contemporaneous introduction of public/private partnerships. However, the University of Toronto's success at fundraising has been accompanied by a diminishment of academic and research freedom. Consider the case of Dr. Nancy Olivieri, a researcher at the University of Toronto and the Hospital for Sick Children. Olivieri was contracted by Apotex, Canada's largest drug manufacturer and one of the University of Toronto's most important donors, to test a new drug to treat thalassemia. During the course of her research Olivieri discovered several disturbing side effects of the drug and recommended that the trials be discontinued, or at least suspended, until the risk to her patients could be assessed. When Olivieri sought to publish her results and alert her patients, she was threatened with legal action and a smear campaign was organised against her.

What is most disturbing and surprising about Dr. Olivieri's case is not the behaviour of the drug company but the behaviour of the university. Instead of supporting Olivieri in this important case of public safety versus corporate profit, the university attempted to fire

Olivieri and did everything it could to mollify Apotex for fear of losing funding from Apotex. University of Toronto President Robert Pritchard went so far as to write a letter to the federal government in support of Apotex's call for legislative changes to generic drug patent laws. Throughout the entire controversy, the University of Toronto was involved in sensitive negotiations to establish a $20 million partnership with Apotex under the auspices of the CFI.

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

The examples of Dr. Healy and Dr. Olivieri illustrate what is lost when the funding of research is privatised and the public interest becomes secondary to corporate research and public relations. Though the federal government has invested more money into research, Canadian citizens are seeing a poor return on this investment because almost all of the new funding is subsidising private industry at the expense of research and development that benefits all of Canadian society.

The CFI and other matching fund programs have opened a significant gap between large, well-established universities and smaller colleges and universities. Those institutions that have a large pool of 'seed capital' to pursue and sustain large corporate donations are reaping a windfall of public funding. Those universities that may not immediately have the same appeal to corporate Canada or do not have the infrastructure to undertake multi-million dollar campaigns for matching funds have no access to this funding. The Canadian Association of University Business Officers estimates that Canadian universities have a deficit of $3.6 billion in deferred maintenance costs. Institutions most able to leverage public funds with private strings attached are better able to meet these immediate needs. Those institutions that cannot meet these needs are unable to sustain an innovative research environment. Though some in the post-secondary education sector have called for a complex funding formula to compensate for the indirect cost of research, the only way to insure that all universities and colleges have equal access to public funds is to restore core funding to public universities and colleges.

In the case of the humanities, almost all of the federal government's matching fund programs explicitly exclude the humanities. In addition, the value of humanities programs is not considered immediately useful by corporations that seek partnerships with universities and colleges. The humanities, unlike science-related disciplines, are chronically under-funded and the current move toward public/private

partnerships ensures that this under-funding will continue.

Though the development of the CFI and other matching fund programs ignores and, in some cases, undermines the humanities, the data has never been more thorough to demonstrate the economic and social benefit of the humanities. Dr. Robert Allen, a University of British Columbia economist, demonstrated that the demand for humanities graduates has actually outstripped that of science and engineering graduates. In addition, Allen noted the proclivity high-tech firms exhibit for employees with the ability to think critically as opposed to those with primarily technical skills. The diversity and dynamism of the new economy would appear, then, to call for the retrenchment of funding and research support for the humanities rather than a withdrawal of public funding.

Recommendation # 6:
The federal government should restructure the CFI in order to ensure that matching funds from the private sector are not a condition of public funding for a research project. In addition, the federal government should double funding for public research over the next ten years.

Recommendation # 7:
The federal government should provide an additional $100 million per annum to the Social Science and Humanities Research Council in order to equalise funding with the other granting councils.

SKILLS AND TRAINING: LIFE-LONG LEARNING FOR ALL?

In the most recent speech from the throne the federal government announced its intention to renew the infrastructure of skills and training in Canada. As part of this process, the Canadian Federation of Students participated in a national roundtable on skills and learning in Edmonton, March 21-22. The roundtable, hosted by Human Resources Development Minister Jane Stewart, drew participants from all regions of the country and almost all social sectors were represented. The set of final recommendations to emerge from the discussions reflected a clear consensus among the participants. It is in the context of the final report of the national roundtable and the comprehensive federal report entitled *Stepping Up: Skills and Opportunities in the Knowledge Economy* that we will offer our assessment of the skills and training challenges Canada faces.

The dominant theme of the roundtable's final report was twofold. First, that the federal government needed to play a prominent role in funding and administering a national skills strategy. Such a national approach would address the shortcoming of the current piecemeal approach to skills and training. Second, the need for universal access to skills and training must form the foundation of any national skills strategy. In order to achieve that goal, funding must be restored to Canada's public colleges and universities.

The burgeoning private, for-profit training industry is in no position to provide solutions to the employment shortages and skills gap that the

Canadian economy faces. Private training is generally characterised by exorbitant tuition fees and sub-standard instruction that leaves students mired in debt and bereft of the skills that drove them to private trainers. Regrettably, it is changes in federal government policy that is pushing many unemployed and underemployed Canadians to turn to the private training industry.

In 1996, the federal government eliminated the practice of bulk purchases of seats at public institutions as a means of providing re-training to unemployed workers. In place of this purchase, unemployed workers now receive a voucher that can be used at both public and private institutions. The new voucher system rarely provides enough funding for the recipient to obtain adequate training.

At private institutions workers are often forced to enter programs that offer neither the quality nor the duration necessary to allow them to acquire the skills needed to participate in the new economy. This point is particularly troubling given the fact that Human Resources Development Canada's labour force studies demonstrate that most of the workers who turn to the federal government for training have been displaced from jobs in the resource industry. In addition, the federal government is now quickly ceding jurisdiction from training through the Employment Insurance Act to provincial governments. Though the recent speech from the throne and the ongoing work on a major 'White Paper' on skills, training and innovation are hopeful signs that the federal government still believes it has an important role to play in skills and training, we believe that is important that the Employment Insurance program continue to fund and support worker re-training. In addition, we support the call for Canada to follow the lead of most European Union countries and allow the EI program to be utilised for training leave. Such a program would mirror apprentice training programs that provide a powerful incentive to develop new skills by providing workers with income while they learn.

Despite the compelling argument for a public solution to the skills and training challenges that Canada faces, the federal government has contemplated the introduction of Registered Individual Learning Accounts (RILA). In the initial stages of discussion, it appears that the RILA will replicate all of the inequalities endemic to the RESP program that was outlined earlier in this brief. Like RESPs, RILAs would expend significant public resources to assist those who already have the means to save for an education. Such a program will do nothing to assist those Canadians who need basic literacy skills and other forms of training that form a pre-requisite for sustainable employment.

In Britain, where a program similar to the proposed RILA has been implemented, less than 25% of those who open a RILA are workers in need of basic re-training and skills. In addition, the RILA program in Britain has been a boon for the private, for-profit training industry. Simply put, the solution to the skills gap in Canada is not to be found in repeating the errors of the RESP and using public funds to support those who already have ample

access to skills and training. The experience in Britain demonstrates that RILAs act more as a public subsidy for business than as means of providing equal access to skills and training. Under the RILA model public funds subsidise the training of employees in the form of forgone tax revenue and direct grants. In the British example, most of those who are opening accounts are participating in training programs that previously would have been funded by the employer.

Finally, if the federal government is to address the gap between access to skills and the need for those skills among the most economically vulnerable Canadians it must reverse the recent trends in Canada Student Loan Policy outlined above. The implementation of credit checks and the discriminatory bankruptcy legislation are barriers to lifelong learning that should have no place in a national skills agenda designed for all Canadians.

Recommendation # 8:
The federal government should re-institute the practice of block purchases of seats in public post-secondary institutions with the purpose of supplying training to unemployed and underemployed workers.

Recommendation #9:
The federal government should introduce a training leave program funded through Employment Insurance. Such a program should allow workers up to 18 months of paid leave for training.

Recommendation #10:
The federal government should retain juridiction over skills and training and tie its national strategy to a national system of needs-based grants.

CONCLUSION

There is little doubt about the social and economic merit of post-secondary education. However, public policy decisions taken by the federal government in recent years has undermined the vision of access to post-secondary education as a social good available to all Canadians. The federal policy trends outlined in this brief point to a system of post-secondary education that determines access on the basis of the ability to pay rather than merit or need. During the 1960s and 1970s when participation rates were growing and post secondary education opportunities were expanding, the federal government played a leadership role in ensuring access to education. Indeed, as Finance Minster Paul Martin suggests, the federal government is still, at least rhetorically, devoted to the idea that all Canadians should have the opportunity to learn regardless of financial circumstance.

Unfortunately, as all the hard data attests, access to the skills and knowledge offered by post-secondary education is quickly becoming a privilege for the wealthy in Canada. In the face of this mounting challenge the federal government has put together a patchwork of policy initiatives that focus largely on regressive tax credits as inducements to save for education

and increasing ties to private industry. Neither approach has improved the quality or accessibility of Canadian colleges or universities. Accessible, public post-secondary education which is of high quality will require the federal government to re-dedicate itself to the funding necessary to ensure real equality of opportunity. Ultimately, such funding is the only measurable standard and proven solution to ensure that the rhetoric of opportunity for all becomes a reality that offers hope to all. We look forward to presenting these arguments in person this fall.

NOTES

1. Canadian Association of University Teachers, *Education Review* Vol. 3 No. 3. "The Growing Funding Gap: Government expenditures on post-secondary education, 2000-01."

2 Canadian Association of University Teachers, *Education Review* Vol. 2 No. 1. "Out of Reach: Trends in household spending on education in Canada."

3. Robinson, David & Andrew Jackson, *Falling Behind: The state of working Canada, 2000*.

4. Assembly of First Nations, *First Nations Post Secondary Education Review (August 2000).*