

Saskatchewan Component of the Canadian Federation of Students

SUBMISSION TO THE HOUSE OF COMMONS

STANDING COMMITTEE ON FINANCE

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Room 221, Riddell Centre, University of Regina

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EXECUTIVE SUMMARY

For over half a century the federal government has recognised the crucial role post-secondary education plays in driving economic growth and innovation, and increasing social and economic equality. The substantial public investments that led to the expansion of universities and the creation of colleges in the 1960s were based on the belief that, in Canada, access to post-secondary education should be dictated by ability and not means.

Canada's public post-secondary system has become remarkably less public over the last three decades. Beginning in the 1980s, the federal government severely limited funding increases, despite substantial enrolment growth. This led to a marked drop in per-student funding. In 1994, following a recession, the federal government made one of the deepest cuts in history, slashing transfers to the provinces for social programs by \$7 billion. In all provinces, with the exception of Québec, this cut was passed directly onto students and their families in the form of double-digit fee increases.

Despite the federal government posting annual surpluses in excess of \$10 billion by the end of the previous decade, funding for post-secondary education was not restored. The underfunding that resulted from these cuts has paved the way for a dramatically larger role for the private sector in Canada's universities and colleges. Increasingly, operating funds for post-secondary institutions are coming from private sources, primarily composed of tuition and ancillary fees. Canadians had relatively equitable access to post-secondary institutions before these cuts, but today tuition fee levels vary widely from province to province making geography one of the biggest factors in whether an individual can afford to go on to post-secondary education.

In order to reduce inequalities across socio-economic strata and regional disparities in access to social programs that receive federal funding, the government must once again prioritize affordable, high quality post-secondary education. This submission will outline how this can be achieved with the following recommendations:

RECOMMENDATIONS:

- 1. The federal government should, in cooperation with the provinces, implement a federal post-secondary education act, modelled after the principles of the Canada Health Act, accompanied by a dedicated cash transfer that restores federal funding for post-secondary education to 1992 levels;*
- 2. Increase the value and number of up-front grants available to students by redirecting funds currently used on education related tax credits and savings schemes to the Canada Student Grants Program;*
- 3. Remove the funding cap on the Post-Secondary Student Support Program and ensure that every eligible Aboriginal student is provided adequate funding to attend post-secondary education.*

FEDERAL FUNDING

Undermining of the government's revenue base

The federal government's aggressive push to lower income tax rates for the wealthy and large corporations has seriously undermined the federal government's ability to fund social programs. While the government posted an \$18.1 billion surplus in the year 2000, by 2010 that surplus has become a multi-billion dollar deficit. A large part of the deficit can be attributed to short term stimulus spending, however Parliamentary Budget officer Kevin Page suggests that Canada has a structural deficit that will continue after Canada's economy has stabilized and stimulus spending has wound down.

The reduced fiscal capacity caused by these tax cuts has made it impossible for the federal government to meet

Canada's social and economic challenges including adequately retraining out-of-work Canadians and basic skills development for our future workforce.

Investments in public social programs such as health care and post-secondary education continuously rank as top priorities for Canadians. In a recent poll conducted by Harris-Decima, only 13 percent of Canadians identified tax cuts or deficit reduction as the most important priority for the federal government. By comparison, over 34 percent identified investments in social programs such as health care and education as their top priority. Despite this, the federal government has prioritized tax cuts and deficit reduction and has reduced funding to federal programs Canadians rely on.

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

The responsibility for financing post-secondary education has been downloaded onto students and their families since the federal funding cuts of the mid-1990s. Government grants as a share of university operating revenue has plummeted to 58 percent in some provinces, down from nearly 85 percent less than three decades ago. This has resulted in a 150 percent increase of the share of university budgets funded by tuition fees between 1988 and 2008, from 14 to 35 percent.ⁱ While government funding has been partially restored, because of an increase in the 2007 budget, fee increases have made up the majority of the difference.

Tuition fees act as a flat tax that is charged to all students at the same rate, regardless of their socio-economic status or financial resources. An argument that post-secondary education will increase a student's long-term earning potential is often presented as an argument against tuition fee regulation and some organisations continue to make the discredited claim that university graduates will earn an additional \$1 million during their lifetime as a result of their education credentials. Not only has this mythical \$1 million figure been thoroughly debunkedⁱⁱ, most graduates are simply average-income earners. Rather than being a luxury, 70 percent of new jobs require a university or college degree. Post-secondary education has become a prerequisite for participation in the labour market, not a guarantee of future wealth.

The most equitable way to finance the public post-secondary system is through the progressive income tax system. This system recovers the cost of an individual's education many times over, while also supporting the post-secondary system for the next generation. The progressive tax system ensures that the wealthy and poor are taxed in a fair manner, reflective of their ability to contribute.

Accountability for Federal Funding Needed

Although the federal government is one of the biggest funders of post-secondary education, there is no mechanism to ensure that the monies transferred to provincial governments who administer education, actually make it into the post-secondary system. Under previous cost-sharing federal-provincial funding models, the provinces had to invest their own funds in order to receive federal monies. If a provincial government chose to cut funding, federal transfers were reduced by a proportionate amount. The current block-funding model—with funds transferred through the Canada Social Transfer—has no requirement that provincial governments maintain their funding in order to receive federal money.

Indeed, there have been numerous examples of provinces receiving additional federal funds, only to turn around and reduce their own funding. For example, in 2008, the Government of British Columbia cut funding to universities by \$50 million in the same year that it received over \$110 million in new post-secondary education funding from the federal government. The federal government has abdicated its responsibility to ensure that federal funds for social programs are used as intended and as a result, provincial governments have been free to misappropriate federal transfers intended for post-secondary education.

Impacts of Funding Cuts

Cuts to federal transfers payments in the 90's led to massive increases in user fees and a drop in the quality of post-secondary education. Class sizes have increased substantially, while institutions have pushed to casualise the academic workforce, replacing full-time tenured faculty members with overworked and poorly compensated sessional instructors. Between 1990 and 2008, the ratio of students to full-time faculty members increased by almost 40 percent, now sitting at 25.5 percent.ⁱⁱⁱ

Federal Cash Transfers for Post-Secondary Education

To return to a level of federal funding equivalent to the level before the cuts of the mid-nineties would mean a dedicated post-secondary education transfer to the provinces of approximately \$4.9 billion. The federal government currently allocates just over \$3.5 billion as part of the social transfer, however there is no requirement for the provinces to spend this money on increasing access to post-secondary education.

Since the funding cuts in 1993, full-time enrolment has increased 24.85%, resulting in an increase of \$637 million in costs to the system that are yet to be directly addressed by the federal government. Additionally, costs related to the university and college system increase at a much higher rate than the standard consumer price index, similar to that of the health care system. Over the previous eighteen years since the cuts to the post-secondary education transfer, we estimate that there has been, on average, an annual post-secondary education related inflation of three percent, or about \$1.7 billion over that of inflationary growth. The Federation sees this as a conservative estimate as some universities have put their institutional cost increases at near or over five percent above CPI.

When compared to current federal funding levels, there is a funding gap of approximately \$1.3 billion.

A Federal Post-Secondary Education Act

The Canadian Federation of Students recommends the adoption of a post-secondary education act that would establish conditions on the provinces for receiving post-secondary education transfers payments. Such legislation would require provinces to uphold principles similar to those found in the Canada Health Act: public administration, comprehensiveness, universality, portability and accessibility. In return for upholding these principles, provincial governments would receive adequate and predictable funding from the federal government.

Recommendation:

The federal government should, in cooperation with the provinces, implement a federal post-secondary education act modelled after the principles of the Canada Health Act, accompanied by a dedicated cash transfer that restores federal funding for post-secondary education to 1992 levels.

TACKLING STUDENT DEBT THROUGH GRANTS

Skyrocketing tuition fees and loan-based financial assistance have pushed student debt to historic levels. Loans disbursed by the Canada Student Loans Program, less those that have been repaid, are increasing by nearly \$1 million dollars a day. The total amount of student loans owing to the federal government surpassed \$15 billion in September 2010. This does not include provincial or personal loans, lines of credit, or credit card debt. Almost 400,000 students borrowed to finance their education this past year alone.

High student debt levels are linked to lower completion rates, not to mention financial stress that is disproportionately borne by those from low-income backgrounds. After graduation, student debt perverts career choice, especially for professionals, which in turn impacts certain populations' access to health care and legal aid. They also prevent individuals from starting families, working in public service careers, purchasing a home, and pursuing low paying or volunteer experience, often necessary to get the required experience to be considered for employment.

Savings schemes and education tax credits are by far the most costly measures the government uses to help Canadians afford the costs of attending college or university. Despite their substantial price tag, these expenditures do little to help those most in need. The primary beneficiaries of tax credits and savings schemes are medium and high-income earners who have a greater capacity to save. The schemes are a costly and ineffective mechanism to improve access to post-secondary education or relieve student debt.

In terms of actual expense, the non-refundable education tax credits have been the most widely used, and costly, federal tax measures for post-secondary education. Education, Tuition Fee and Student Loan Interest tax credits cost the federal government almost \$1.6 billion in foregone tax revenue. When combined with the over \$800 million spent on the CESGs and RESPs, the government spends more on ineffective savings schemes and tax-credits than the Canada Student Loan Program lends out in a year.

In fall 2009, the federal government established a federal grants program. This was an important first step by the federal government toward tackling student debt. In order to meaningfully reduce debt, a larger investment in up-front grants is required. Fortunately this investment can easily be made, without additional costs to the government. If all education related savings schemes and tax credits were shifted to up-front assistance through the Canada Student Grants Program, every dollar currently loaned by the federal government could be converted to a non-repayable grant, distributed on the basis of financial need.

Recommendation:

Increase the value and number of up-front grants available to students by redirecting funds currently allocated to education related tax credits and savings schemes to the Canada Student Grants Program.

RESPECTING CANADA'S TREATY OBLIGATIONS

While the educational attainment of the Canadian population as a whole has been steadily increasing over the latter half of the past century, the attainment of Aboriginal peoples' has not increased in parallel. This disparity is one of the many barriers to socio-economic equality facing Canada's Aboriginal peoples.

Currently, the federal government provides student financial assistance to status First Nations and Inuit students through the Post-Secondary Student Support Program (PSSSP). The PSSSP facilitates access to post-secondary education by providing funding for the costs of tuition fees, books, supplies, travel, and living expenses.

Prior to 1992, PSSSP funding was determined by the number of eligible students and the amount of eligible expenses. In 1992, the Department of Indian and Northern Affairs Canada (INAC) replaced the per-student funding model with a system of block funding to Band Councils. In 1996, funding increases were capped at 2 percent annually, regardless of increases in inflation, tuition fees, or the number of Aboriginal students needing support.

Prior to the implementation of the funding cap, approximately 27,000 Aboriginal students received financial assistance through the PSSSP. In 2006, the number had fallen to roughly 22,000. It is estimated that between 2001 and 2006, the funding cap resulted in over 10,500 students being denied funding, with an additional 2,588 denied in 2007-08 alone.

The cost to government to fulfill its treaty obligations with respect to Aboriginal education is minimal compared to the long-term implications of maintaining the status quo. As long as the gap in educational attainment, and therefore employment and income remains Canada stands to lose between \$400 billion in GDP and \$116 billion in social programme spending and tax revenues over the next 20 years.^{iv}

Recommendation:

The federal government should remove the funding cap on the Post-Secondary Student Support Program and

ensure that every eligible Aboriginal learner is provided adequate funding to attend post-secondary education.

END NOTES

Canadian Association of University Teachers. "2010-2011 Almanac of Post-Secondary Education in Canada", September, 2010.

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