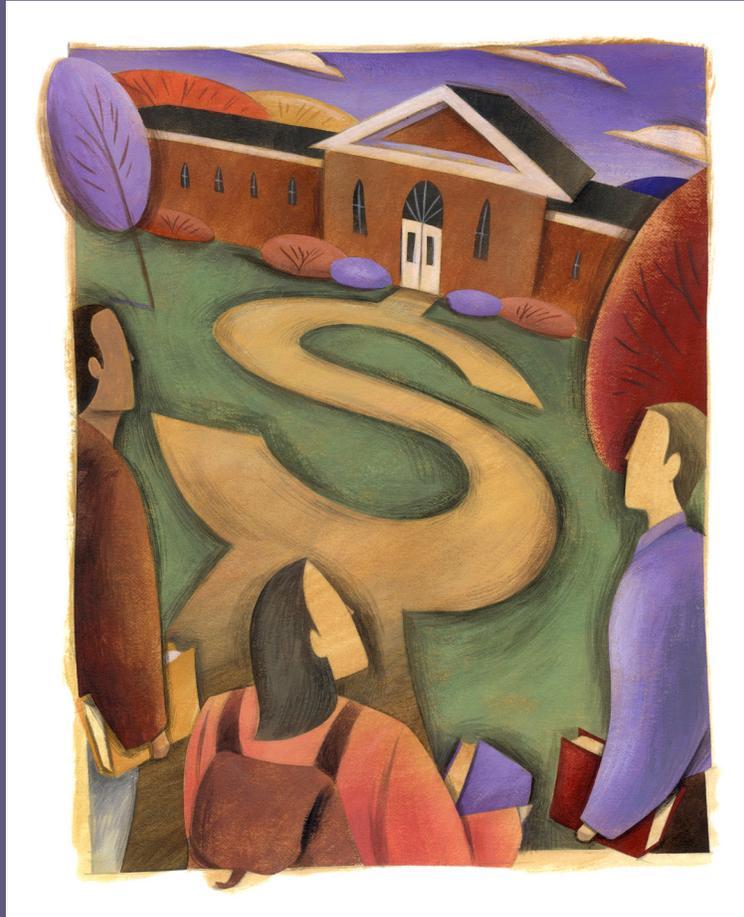


Strategy for Change:
Money *Does* Matter



An alternative for accessible, high-quality
post-secondary education

Canadian Federation of Students
October 2007

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Chapter 1. Introduction

1.1 Introduction to this text

On October 17 1990, the members of the Canadian Federation of Students presented the first edition of its alternative funding model for post-secondary education. The proposal, entitled *Strategy for Change*, articulated students' concerns about public funding for post-secondary education, as well as problems with federal student financial assistance programs.

In the intervening seventeen years since the first version of this document was published, federal funding and student aid policies have changed substantially, as have many provincial approaches to post-secondary education. Perhaps the single overarching trend is the federal government's retreat from a leadership role in broad higher education policy.

This update to *Strategy for Change* uses current research to underline the importance of improving access to post-secondary education and to provide recommendations about the most equitable strategies for doing so. Most importantly, this document strives to examine Canadian public post-secondary education in a comprehensive way that takes into consideration the responsibilities of both the federal and provincial governments.¹ Too many commentators have come to policy conclusions about federal financial aid spending without any consideration of the complex impact that federal transfers do and *should* have on tuition fees, and how tuition fees impact equitable access, student financial aid, and student debt. Far from being a mysterious force of nature akin to the weather, tuition fee levels are easily regulated by governments, and should be treated as such in discussions about financial aid.

Finally, this paper is a response to the Millennium Scholarship Foundation's spurious "research" project *Does Money Matter?* The research is, in fact, clear: money *does* matter. For low- and middle-income families, there was never any doubt.

1.2 Education is a Right

Education is a right. This statement is the guiding principle for the policy proposals contained within this document. Asserting that education is a right does not discount the role of academic qualifications. Rather, it is a recognition of the aforementioned goals and benefits of post-secondary education, and the right of citizenry to equal access to society's core services.

The alternative vision is that education is a privilege. As a privilege, it matters not that there be equality of access, nor, it could be argued, should it be subsidized by the government. As with most privileges, the marketplace can determine access to education. For those who see education as a privilege, tuition fees are not just preferable, but they are necessary to determine who has access to this dispensable service.

When it comes to the popular perception of the inclusivity of public post-secondary institutions and internalized feelings about who belongs in higher education and training, consider the unsubtle message conveyed by the opposing policies implemented recently in Britain and Ireland. Within the same decade, Ireland eliminated user fees and Britain introduced user fees for universities. In the Irish example, whatever the economic implications were from eliminating tuition fees the government sent an unmistakable message to families with modest financial resources: *your financial situation will not determine your place in Irish universities*. The Blair government essentially

1. The specifics of apprenticeships, other workplace skills training, and university research are largely beyond the scope of this particular paper.

did the opposite, whether intentional or not. The message to British families was: *on top of all of the academic and other sacrifices you have to make to get your spot in university, we've added another serious concern for you.* It's doubtful that all of the financial aid marketing that money can buy will undo the feeling among families having trouble making ends meet that another ominous financial burden was added to their responsibilities. Surely the unspoken messages sent by governments to economically marginalized families is equally important as any motivational early intervention program.

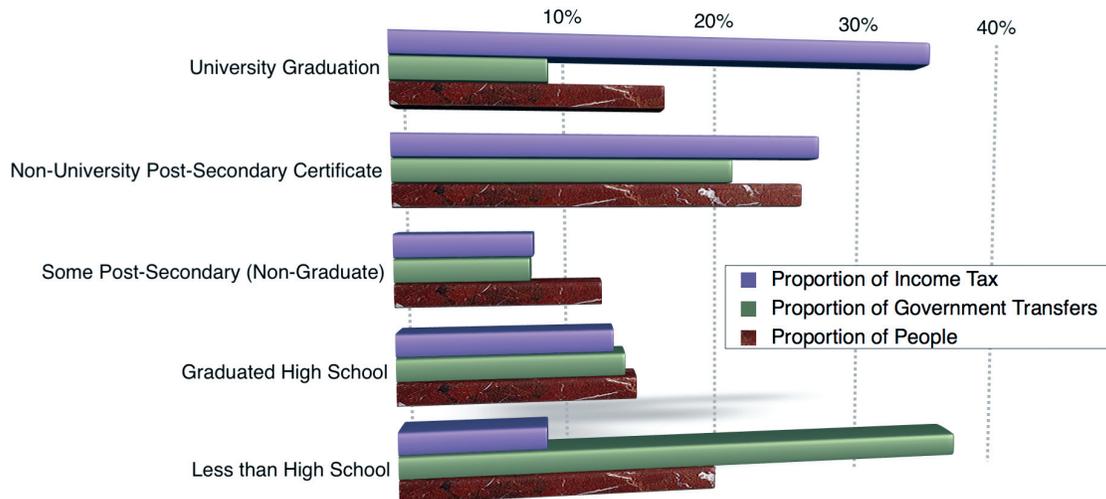
In Canada, governments have been sending families the message that financing education is their personal responsibility. Despite the patchwork of financial assistance programs, by increasing fees and leaving graduates with growing debt, governments have been shirking their responsibility for ensuring that access to post-secondary education is independent from personal financial struggles.

1.3 The Benefits of Post-Secondary Education

Canadians know intuitively, and statisticians know empirically, that there are substantial benefits to post-secondary education. Critical yet politically-charged debates follow about how to best to support a system that yields economic benefits to both the individual and society/government. Perhaps to the dismay of some economists, the answer to the question “who should pay?” cannot be solved by one complicated formula. Rather, the degree of adequate public funding for social programs is firmly rooted in subjective political perspectives.

In 2006, a thorough review of the literature on positive social and personal outcomes related to various education levels was conducted by Craig Ridell. Among the more noteworthy findings are that university graduates not only contribute more to the tax base than those without a degree, but graduates are also far less likely to draw on public transfers to individuals, such as social assistance (see Figure 1.1).²

Figure 1.1 Income tax collected and government transfers by education level



Higher education levels are also correlated with higher civic participation, such as voting and following current events.³ Studies on incarceration rates and education in the U.S. report that those with some college experience

2. Riddell, W. Craig. *The Impact of Education on Economic and Social Outcomes: An Overview of Recent Advances in Economics*. Vancouver: University of British Columbia, 2006.
 3. Riddell, W. Craig. *The Impact of Education on Economic and Social Outcomes: An Overview of Recent Advances in Economics*. Vancouver: University of British Columbia, 2006.

have one-quarter the incarceration rate as high-school graduates.⁴ Authors Lochner and Moretti (2004) go so far as to estimate that \$1.4 billion could be saved from the costs of crime in the U.S. by raising the high school graduation rate by one percent.

High participation in post-secondary also likely contributes to reducing stress on the Canadian health care system. In the 2007 version of *Education Pays*, the authors conclude that “At every age and income level, higher levels of education are correlated with better health.”⁵ This may indicate a correlation between levels of education and healthy living choices.

1.4 A Cautionary Note About Benefits

Although university and college education is virtually a pre-requisite for meaningful participation in the labour force, some organizations have attempted to exaggerate the private rate of return on post-secondary education as a justification to raise tuition fees. One common refrain among university presidents is that a university degree holders earn on average one million dollars more over their lifetime thanks to their education credentials. However, a closer examination suggests that one should be skeptical of this figure. First of all, it is an average inflated by the inclusion of a compound interest element. In other words, when inflation is factored out, the “net present value” (or “additional potential earnings”) of a university education is only \$148,000.⁶ However, as stated, it is an average of the increased earnings for university degree holders. The vast majority of post-secondary graduates are average income earners.

The “one million dollar” communications tactic attempts to place an overly narrow frame on the discussion about how to best pay for public post-secondary education. As will be discussed in later chapters, there are both private and public returns to high levels of participation in university and college, but the “one million dollar” tactic draws attention to a (false) glut of individual future earnings on which to raise funds from the student, ignoring such instruments as the progressive income tax system.

The weakness of this claim is evidenced by economist Hugh MacKenzie, who demonstrates how variable the personal “investment” in post-secondary education can be. MacKenzie found that for one-quarter of all university graduates, the net value of a degree is negative.⁷ That is, for 25% of all university graduates, annual earnings are less than that of the average earnings of those with only a high-school diploma. The myth of the wealthy graduate who can pay more tuition fees is clearly not supported by the facts.

The desire by some policy analysts and economists to scientifically calculate individual benefits both distracts from the larger debate about what sorts of entitlements a population should have and fails to incorporate any indirect benefits that accrue for individuals who have not attended post-secondary education, as well as not considering the larger societal benefits.

Independent of any technical calculation of individual benefit, there are a number of ways that both the individual and society benefit from investments in post-secondary education. It is to a country’s advantage to ensure it invests in educating its people in such a way that does not create up-front barriers and then saddle people with large debts as they enter into their working lives.

4. Baum, Sandy & Kathleen Payea. *Education Pays 2004: The Benefits of Higher Education for Individuals in Society*. New York: The College Board, 2004.

5. Baum, Sandy & Jennifer Ma. *Education Pays 2007: The Benefits of Higher Education for Individuals in Society*. New York: The College Board, 2007.

6. Mackenzie, Hugh. *Funding Postsecondary Education in Ontario: Beyond the Path of Least Resistance*. Toronto: Ontario Coalition for Postsecondary Education, 2004.

7. Mackenzie, Hugh. *Funding Postsecondary Education in Ontario: Beyond the Path of Least Resistance*. Toronto: Ontario Coalition for Postsecondary Education, 2004.

Chapter 2. A Brief History of Post-Secondary Education in Canada

2.1 The Federal Presence in Post-Secondary Education

In 1867, when the British North America (BNA) Act came into effect, there existed only a public system of education for primary and secondary levels and no public post-secondary education system. The universities of the time (there were no community colleges) were private schools run primarily by religious groups. The BNA Act gave the provinces the mandate over the education system as it existed, which can be argued covered only primary and secondary education. Yet based on the BNA Act, the provinces have asserted their sole governing authority over all levels of education, including post-secondary education.

The fact that provinces have constitutional jurisdiction over education blurs the reality that the federal government has been a major provider of funds for the operation of Canadian universities and colleges for more than 100 years. From the start of the public post-secondary education system in Canada, the federal government has had a presence. Some universities were chartered by the federal government for the development of agricultural and technical education, while the post-World War II expansion of universities was initially facilitated by direct grants from the federal government. The federal government has played an important role, in cooperation with the provincial and territorial governments, in the history of the Canadian post-secondary education system through the development of programs, the creation of new institutions, the provision of student grants to encourage participation in post-secondary education, shared funding agreements, and the development of the national research councils.

2.2 Federal Funding Arrangements

2.2.1 Established Programs Financing (1977–1996)

The modern history of federal involvement in post-secondary education begins with the *Established Programs Financing Act* (EPF). It was introduced in 1977, ostensibly to lend some stability and permanence to the federal-provincial funding agreement for post-secondary education and health. This *Act* brought into existence a new federal contribution to the provinces that consisted of deferred federal tax points and cash payments. The federal government lowered its tax rate to allow the provinces to raise their tax rate without an overall rise in taxes. The arrangement allocated 29% of the EPF transfer for post-secondary education. The funds were based on provincial population and indexed to the yearly growth in the Gross Domestic Product.

In the past, the Canadian Federation of Students had expressed its concerns with the arrangement because it signalled a shift in public spending. No mechanism existed to keep the funding in pace with relative increases in the student population. It was commonly, but erroneously, presumed that as the size of the 18 to 24 year old cohort began to drop, there would be a corresponding drop in enrolment and therefore less generous subsidies would be needed.

Another concern with the EPF was that provincial governments could not be held accountable for the expenditure of the funds. The provinces argued that the funds received or the revenues raised by the tax portion of the transfer constituted provincial revenue. No guarantee existed to ensure that the post-secondary education funds were allocated to the universities and colleges, rather than to other provincial government priorities.

A final concern had to do with the reliability of the federal funds. Since the early 1980s, the funding formula of the EPF had been repeatedly amended by the federal government resulting in a retraction of funds for post-secondary education. This recanting of responsibilities had been facilitated by the absence of any formal arrangements in the constitution for federal involvement in post-secondary education and made a reduction in funding more politically expedient for all levels of governments. As discussed in section three, the significant reduction of federal funds for post-secondary education encouraged a shift by the provincial governments to raise revenues through other sources.

2.2.2 Canada Health and Social Transfer (1996–2004)

In 1996, when the federal government combined virtually all of its transfers to the provinces into the Canada Health and Social Transfer (CHST), it also reduced its contribution to the CHST by over \$7 billion. The impact on access to post-secondary education was swift and severe, as provinces passed on the funding cut to students and their families in the form of higher tuition fees and higher student debt. Tuition fees at Canada's universities more than doubled in less than a decade.

After balancing the federal books in 1997, the Government of Canada implemented several initiatives that could be considered “post-secondary education” spending. However, these programs were confined almost exclusively to research commercialisation, tax credits, and personal education savings programs. To the detriment of access to post-secondary education, the federal government quietly retreated from its historical role as the key figure in post-secondary education financing. Although “direct” spending increased in the forms described above, transfers to the provinces for post-secondary education were never restored to the pre-cut levels of the early 1990s. Thus, while eliminating Canada's national budgetary deficit, debt had been shuffled off the national books and onto the backs of students in the form of student debt.

2.2.3 Canada Social Transfer (2004–present)

At the behest of the provinces, the federal government eventually split the Canada Health and Social Transfer into two separate transfers in 2004, one for health funding and one for everything else (Canada Social Transfer). The primary motivation was to focus on federal–provincial negotiations for increased health care spending and mutual accountability. Not surprisingly, the Canada Social Transfer (CST) was treated as a side-effect of splitting the CHST, and was largely ignored during the first few years of its existence. Funding for the CST barely increased by inflation between 2004 and 2007.

The Canadian Federation of Students opposed the amalgamation of federal transfers in 1996, and after the creation of the CST, many other organizations in the post-secondary education sector also began to argue for a separate transfer for post-secondary education funding. In the 2007 federal budget, the federal government partially relented, increasing spending for post-secondary education in 2008 by \$800-million, but failed to set any conditions for the new investment.

2.3 Student Financial Assistance

In response to the student movement's campaign for grants, the federal government implemented a broad-based public student loans program in 1964 that was an upgrade to the Dominion-Provincial Student Aid Program which began in 1939. According to the government, the Canada Student Loans Program (CSLP) was necessary

for “post-secondary students in order to respect the principles of accessibility to the post-secondary system and mobility within the country.”⁸

In response to increased demand for assistance, provincial governments administered their own aid plans in addition to administering the CSLP. Although the federal government funds 60% of a student’s awarded loan, the assessment of need and allocation of student aid is the responsibility of the provincial and territorial governments. However, Québec withdrew from the federal aid program in 1954 and the Northwest Territories withdrew from the CSLP in 1988. Nunavut also does not participate in the CSLP. All three have negotiated a separate arrangement with the federal government and receive federal revenues in order to manage their own loans program.

Throughout its history, the evolution of student financial assistance in Canada has been somewhat piecemeal. Although the program is deliberately implemented for the most part on a micro level, the political direction from the ministerial level has, more often than not, been narrowly focused on a very short time horizon, usually the next budget or at best, the next election. Short-term political objectives have led to numerous small alterations in the CSLP’s operations and offerings, leading to both positive (for example low-income grants) and punitive (for example credit checks) outcomes. The only ambitious undertakings in student financial assistance over the past twenty years were the heavily resisted attempt to implement income contingent loan repayment schemes (see Section 2.5), and the expensive but totally dysfunctional Millennium Scholarship Fund (see Section 4.2.2).

The net effect of dozens of minor changes have left many wondering if the CSLP and related savings schemes and tax credits are working together effectively to achieve broader goals, or if the complexity of the system today undermines a borrowers’ ability to navigate it successfully. Furthermore, students have expressed concern that skyrocketing tuition fees and other costs have forced a lending expansion never anticipated by the early architects of the CSLP, and as a result, the philosophy of many program officials have tilted distinctly towards a private-sector mentality of risk management and fraud prevention rather than a student-centred approach to access and debt reduction.

2.4 User Fees (Tuition Fees)

2.4.1 Pre-WWII (1867 to 1938)

Prior to the Second World War, very little public funding was provided to Canada’s universities (community colleges had not yet been established). University funding relied almost exclusively on private donations and substantial tuition fees. Many universities’ academic programs were tied to denominational churches of the Christian faith, and relied heavily on church funding. Only a small portion of the Canadian population attended university, and the vast majority of students came from Canada’s wealthiest families.

2.4.2 Post-War (1946 to 1980)

Following the war, the federal government made grants to attend university widely available to returning soldiers as part of a veterans re-integration program. The federal government also began directly funding universities during this time, and continued to do so after most of the veterans had graduated. As well, most provincial governments began providing funding for post-secondary education institutions.

By the mid-1960s, nearly all funding for Canada’s universities was provided by the federal and provincial governments. This allowed for tuition fees to be reduced to a token amount. Not surprisingly, post-secondary

8. Secretary of State. Support to Education by the Government of Canada. Ottawa: Government of Canada, 1983.

education enrollment exploded, with Canadians from all backgrounds gaining access to higher education for the first time.

Starting in the mid- to late-1960s, provincial college systems were established in most provinces. Because of public investment, tuition fees at most colleges were either token or nil. This era represented a time when Canadian governments not only recognized the social and economic value of mass post-secondary education, they also invested public funds to reflect that commitment. For a period at the end of the 1960s, Newfoundland & Labrador abolished tuition fees altogether.

By the early 1970s, most of the discussions about post-secondary education began to focus on the elimination of tuition fees. In 1976, the Canadian government signed on to the United Nations' Covenant on Economic, Social, and Cultural Rights promising to gradually introduce free education at all levels.

2.4.3 1980s

In the early 1980s, a value shift began to take root in governments in Canada and most other western countries, as most jurisdictions began cutting funding for public programs. Post-secondary education was an easy target for these funding cuts. Because universities and colleges were funded through a combination of both federal and provincial grants plus user fees, governments were able to cut funding by forcing students and their families to subsidise the difference. For various reasons, this option was not available for governments looking to cut public investment in health-care or primary and secondary education. Between the early 1980s and the early 1990s, average tuition fees at Canadian universities more than doubled. Average tuition fees at colleges, excluding those in Québec, more than tripled.

2.4.4 1994 to 2000

In 1995, the federal Liberal government announced a further cut of \$7 billion in public funding to provincial programs, including post-secondary education, health-care, housing, and social assistance. These post-secondary education cuts were directly passed on to students, resulting in the largest tuition fee increases in Canadian history.

2.4.5 2000 to the present

As access to university and college became increasingly restricted and students were forced to suffer greater debt loads in order to afford higher education, the Canadian Federation of Students was able to successfully turn the tide in several provinces. British Columbia, followed by Manitoba, Newfoundland and Labrador, Ontario, Saskatchewan, and Nova Scotia responded to pressure from students by introducing tuition fee freezes and increasing provincial funding for post-secondary education. Tuition fees were actually reduced in British Columbia (2001), Manitoba (2000), and Newfoundland and Labrador (2002, 2003, and 2004).

Québec was unique among the provinces because it never passed the cost of federal funding cuts on to students. Tuition fees in Québec have been frozen for 35 of the last 40 years and college remains free for Québec students. A great tradition of affordable education in Québec has only recently been interrupted by Liberal Premier Jean Charest, who capitulated to pressure from a small group of university presidents to remove Quebec families' protection from fee increases.

2.5 Income Contingent Loan Repayment Schemes

On January 25, 1995, 100,000 students from Corner Brook, Newfoundland to Victoria, British Columbia participated in a national day of strike and action against the federal government's proposal to implement an income contingent loan repayment (ICLR) program as part of its Social Security Review. The Federation is not alone in its condemnation of the ICLR program. Over 100 unions, faculty associations, community organizations, anti-poverty associations, labour councils, and social justice groups endorsed the Federation's 1995 call to action.

Proponents of income contingent loan repayment have sought to gain support for it by exploiting the student debt crisis and by playing down the social benefits of an educated citizenry. Rather than being up-front about their true purpose—to shift the cost of education from the state to the individual—they have tried to “sell” ICLR loan schemes as improved student aid plans that allow student loan recipients to pay off their loans as their income allows.

But the purpose of ICLR is not to improve student aid. Even policy analysts involved in designing and administering ICLR models concede this point. The Government of Australia describes its ICLR in these terms: “The purpose...is to raise revenue from the recipients of higher education for return to the system as part of... funding of higher education; it is not a form of student assistance.”⁹

In Canada, documents obtained through a federal Access to Information request filed in July 2004 also reveal the purpose of these schemes: “ICLR loans would solve the problem of university and college underfunding, by allowing institutions to increase tuition fees to cover a greater portion, or even all of its costs.”

Under ICLR, borrowers would repay their loans as a percentage of their incomes upon completion of study. Graduates with lower levels of income would repay their loans over a longer period of time, while those in high-paying jobs could repay their loans more quickly and pay less interest. Those who could afford to pay their tuition fees up-front would avoid high interest rate payments after graduation and end up paying less for post-secondary education. In Australia, students who can afford to pay their tuition fees in full at the beginning of every academic year receive a discount.

As demonstrated later in Figure 3.8, ICLR would disproportionately hurt those who faced discrimination in the workforce. Repayment difficulties would be more pronounced for women that leave the workforce due to pregnancy and child rearing. Under one model considered in Canada in the mid-1990s, 43% of women would not be able to pay off their debt after 25 years of repayment.

The Council of Ministers of Education, Canada (CMEC), approved in principle an ICLR as early as 1969. In 1984, the Ontario government's Bovey Commission also came out in support of an ICLR as did the Macdonald Commission in 1985 and the Commission of Inquiry on Canadian University Education in 1991. In the 1997 federal budget speech, the Minister of Finance spoke about the implementation of an “Income Related Repayment” program with interested provinces. In New Brunswick, a review of post-secondary education in fall 2007, titled *Advantage New Brunswick*, recommends an “Enhanced Repayment Assistance” program that gears loans payments to income level. In virtually all of these examples, including *Advantage New Brunswick*, higher fees were a central part of the funding plan.

9. Green, Robert. “Letter to the Canadian Federation of Students.” Department of Employment, Education and Training, Central Office, Government of Australia, 1991.

Table 2.1 Interest charges across three repayment terms

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

2.6 Aboriginal Students

The rights of Aboriginal peoples were first outlined in the Royal Proclamation of 1763. Aboriginal peoples were to be provided an education in exchange for the use of their land and resources. Responsibility for providing an education was assumed by the federal government under the British North America Act of 1867, although First Nations people had to give up their registered Indian status as a prerequisite to gaining an education until the 1940s. For decades, limited financial resources were available to assist Aboriginal students to pursue a post-secondary education.

In 1968, the department of Indian and Northern Affairs (INAC) created a new program to provide assistance to the relatively few First Nations and Inuit students enrolled at post-secondary institutions. With an eye to increasing the low numbers of First Nations and Inuit people entering the post-secondary system, INAC launched a new program in 1977 called the Post-Secondary Educational Assistance Program (PSEAP) which made funding available to virtually all eligible students. Nine categories of expenses were covered under the PSEAP including tuition fees, textbooks, counselling, living expenses and travel, and special allowances. Between 1987 and 1989, numerous reviews and revisions took place to the PSEAP, including restricting and prioritizing funding in order to deal with deferrals. In 1989, a new program called the Post-Secondary Student Support Program—that remains in existence today—replaced the PSEAP.

Among other changes, the PSSSP reduced the number of eligible expenses a student would be able to receive funding for and provided additional monies for deferred applications, which could not be accommodated within the budget.

In addition to the PSSSP, the creation of the University and College Entrance Program (UCEP) and the Indian and Studies Support Program (ISSP) in 1983 and 1989 respectively aimed at increasing the ability for First Nations and Inuit students to pursue post-secondary education. The UCEP was geared at offering preparatory programs to First Nations and Inuit students in order to better prepare them for post-secondary studies, and the ISSP was created to provide financial support to post-secondary institutions themselves to develop programs tailored to ensure the success of First Nations and Inuit students.

According to INAC, almost 100 percent of the combined funding of all of the post-secondary education programming is now delivered directly by First Nations and Inuit administrators, under the eligibility criteria as defined by Band Councils.

When accounting for inflation and population growth, the value of the federal government's contribution to the Post-Secondary Education Program, which includes the PSSSP, UCEP and the ISSP, has not been meaningfully

increased since the mid-1990s. Funding for INAC's Post-Secondary Education Program has been capped at 2% annual growth since 1996. In 2005-2006, expenditures on the INAC Post-Secondary Education Program amounted to \$305 million.

After facing harsh criticism for its lack of funding for Aboriginal learners, in the 2003 budget, the federal government introduced a \$12 million endowment to establish post-secondary scholarships for Aboriginal students, administered through the National Aboriginal Achievement Foundation (NAAF). While new money was welcome, the one-time investment did not constitute the type of long-term investment that was required. In 2005-2006, the NAAF was able to fund less than 35 percent of the requests received.

In 2005, the federal government announced plans to tax PSSSP funds as income, removing the funding from tax exempt status and violating the federal government's fiduciary responsibility to Aboriginal people. The Canadian Federation of Students, along with many Aboriginal groups across the country, successfully lobbied strongly against the proposed change, and plans to do so were abandoned by the federal government.

Although education is a provincial jurisdiction, education for status First Nations and Inuit students falls under federal jurisdiction under the Indian Act, regardless of whether schooling is pursued on or off reserve. At present, non-status First Nations and Métis students are not covered by the same federal policy, and as such, INAC's Post-Secondary Education program is not available to them.

The Assembly of First Nations maintains that "education at all levels is an inherent Aboriginal and Treaty right that is recognized in the Canadian Constitution", a view shared by the Federation.

Table 2.2 History of federal funding for post-secondary education

1867	The British North America Act (S.93) granted each provincial legislature the right to make laws regarding education in their province.
1913	The Agricultural Instruction Act supported provincial agricultural training by providing funding on a provincial population basis.
1916	The National Research Council (NRC) was created with a mandate to coordinate government research programs and provide graduate fellowships and grants for university research.
1939	Dominion-Provincial Student Aid Programs provided financial contributions to each participating province for student aid.
1952	The direct federal funding grant for universities was initially \$0.50 per capita of provincial population and by 1966 it had increased to \$5.00.
1957	The Canada Council was created to provide grants and fellowships to support research in the humanities and social sciences.
1960	The Technical and Vocational Training Assistance Act made provision for shared costs with the provinces in the expansion of technical and training institutions.
1967	The Federal-Provincial Fiscal Arrangements Act elevated the federal direct financial support to \$15.00 per capita. The Act established a 50-50 shared funding arrangement for post-secondary education with the provinces.
1977	The Established Programs Financing Act (EPF) was enacted to replace the Federal-Provincial Fiscal Arrangements Act.
1984	The education portion of EPF was limited by the federal government fiscal restraint policy.
1986	EPF was indexed to the growth in Gross Domestic Product minus 2%.
1990	EPF was frozen for two years, after which the freeze was extended to 1995.
1996	Introduction of the Canada Health and Social Transfer (CHST). Federal funding for post-secondary education, health care and social assistance were rolled into one transfer. The Transfer consisted of federal tax points with a cash portion. During the first few years, \$7 billion was cut from the CHST.
1997	The cash portion of the CHST was frozen at \$12 billion.
2004	CHST was split into the Canada Health Transfer and the Canada Social Transfer (CST). The CST retains a 38% share of the funding, or approximately \$8.3 billion.
2007	The federal government pledged to increase federal transfers for post-secondary education by \$800 million beginning in 2008.

Table 2.3 History of federal student financial assistance

1919	Student loans provided for veterans.
1939	The Dominion-Provincial Student Aid Act set out the provision of grants and loans for students.
1945	Veterans Rehabilitation Act provided financial aid to returning veterans and direct grants to universities.
1957	Prime Minister Diefenbaker promises a national student loans system. This promise is never carried out under Diefenbaker.
1964	The Canada Student Loans Program (CSLP) was developed to provide federal support to post-secondary education.
1983	The Canada Student Loans Act was amended to include provisions for loan limit increases, loans for part-time students, interest relief for unemployed borrowers, and debt relief for students who become permanently disabled.
1991	A 3% tax was imposed on students loans. The tax was removed in 1993 after protest from students.
1992	Interest-free status removed from the six month grace period, and the maximum eligibility period shrinks from 520 weeks to 340 weeks.
1994	Increase in the weekly loan limit from \$105 to \$165. Consideration by the Federal government of an Income Contingent Loan Repayment program (ICLRP). The ICLRP is finally rejected after 100,000 students demonstrate across the country
1995	Three special opportunity grants were introduced. The privatization of the loans program began with the administration of the program being handed over to the lending institutions for a 5% risk premium, and the release of students' credit information to lending institutions.
1996	Bill C-5 proposed to remove a student's ability to include a student loan when declaring bankruptcy for the first two years after the completion of schooling.
1997	The Canada Student Loan interest relief program was extended from 18 months to 30 months. The federal government announced plans to begin negotiations with the provincial governments to implement an Income Related Repayment (IRR) Loans Plan.
1998	Contained within the Liberal government's "Education Budget" were three main changes to financial aid policy: an unanticipated increase in the student loan bankruptcy prohibition to ten years, the initial expense to the Millennium Scholarship Foundation (MSF), and the Debt Reduction in Repayment program.
2001	Under pressure from the Federation, the federal government increases the taxation threshold on scholarships to \$3,000 (the level of the average MSF bursary).
2003	Amendments were made to the DRR program to increase it's uptake.

Table 2.3 History of federal student financial assistance

2004	Canada Access Grants introduced for students from families who qualify as “low-income”. The grants were valued at \$3,000 or 50% of tuition fees, whichever is less (up to a value no greater than the student's assessed need under the CSLP).
2005	Changes made to the Registered Education Savings Programme (RESP), including the introduction of a special savings account for low-income families, the Canada Learning Bond.
2007	Taxation of bursaries and scholarships is abolished. Further changes are made to the RESP.

Chapter 3. Current Trends in Post-Secondary Education

3.1 Spending by the Government of Canada

Before describing specific trends in post-secondary education spending, it is useful to provide a brief review of larger trends in the Government of Canada's budget over the last decade.

One of the most common myths about modern era federal budgeting is that the federal government is using recent surpluses to increase spending. Many industry lobbyists claim that Canada is not competitive globally due to high tax rates. This popular perception has more to do with the way federal government promotes the budget to the public and credulous media coverage rather than the reality of long-term spending trends or the facts about where Canada stacks up internationally.

3.1.1 Taxation

Contrary to popular belief about spending in the era of federal surpluses, federal government spending has decreased by more than 10% from 53.3% of Gross Domestic Product in 1992 to an estimated 39.5% of GDP in 2006.¹⁰ Over the same period, countries in the Organization for Economic Cooperation and Development (OECD) cut spending by only 2% on average, down to 40.6% of GDP.¹¹

Canada has aggressively reduced corporate taxes, often well beyond measures undertaken by countries with comparable economies. Canada's corporate tax rate has been slashed 9% since 2000 alone, leaving only France and the United Kingdom with lower corporate tax rates in the G-7.¹² The incredible cost of reducing corporate taxes to rates lower than most of our trading partners has dwarfed other federal spending. According to Canadian Labour Congress economist Erin Weir,

The \$10 billion forgone [in corporate tax cuts] in each of the last three years (2004, 2005, and 2006) could be compared to the 'big ticket' [social] spending programs announced by Paul Martin, which always seemed to cost \$5 billion over five years. [author's emphasis]¹³

These trends in corporate taxation are worrisome for the notion of fair taxation in Canada. More than ever before, Canadian corporations are benefitting from a highly educated workforce and publicly funded research conducted in university laboratories. Instead of contributing a greater share of profits and capital gains to the enhancement of public education and university research, the federal government has reduced the mandatory tax contributions from the corporate sector.

In recent years Canada has also opted to aggressively reduce income taxes. For some of the same reasons described above for corporate taxes, this is probably a threat to the long-term viability of social programs like post-secondary education. The Canadian Labour Congress has documented a shrinking tax rate for the wealthiest 5% of taxpayers during a time when the income gap is widening between the super rich and most working families (see Section

10. Jackson, Andrew. "Canada's Incredible Shrinking Government". 2007. (January 3, 2007): The Progressive Economics Forum. <<http://www.progressive-economics.ca/2007/01/03/canadas-incredible-shrinking-government/>>.

11. Jackson, Andrew. "Canada's Incredible Shrinking Government". 2007. (January 3, 2007): The Progressive Economics Forum. <<http://www.progressive-economics.ca/2007/01/03/canadas-incredible-shrinking-government/>>.

12. Weir, Erin. "Kpmg on Corporate Taxes". 2007. The Progressive Economics Forum. <<http://www.progressive-economics.ca/2007/06/29/kpmg-on-corporate-taxes/>>.

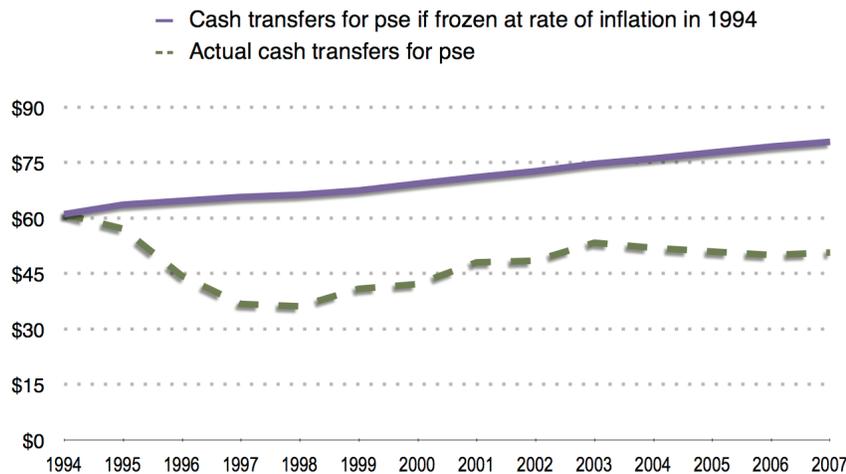
13. Weir, Erin. "The High Cost of Low Corporate Taxes". 2007. The Progressive Economics Forum. <<http://www.progressive-economics.ca/2007/03/15/the-high-cost-of-low-corporate-taxes/>>.

3.1.3). In fact, income tax rates for the top income earners is actually lower in Canada than in the United States¹⁴, which should put to rest any concerns from the tax-cut lobby about global competitiveness.

3.1.2 Federal Surpluses 1997–2007, Future Projections

Financed largely by social spending cuts and re-directing massive Employment Insurance surpluses away from entitled workers and into general revenue, the Chrétien government eliminated the deficit by 1997. The 2007 federal budget marked the tenth anniversary of healthy federal surpluses, but students and their families had little cause to celebrate, as deep funding cuts to the provinces for post-secondary education have not been restored (see Figure 3.1.)

Figure 3.1 Per capita federal post-secondary education cash transfers, actual and at 1994 inflation



On September 27, 2007, the federal government announced that the year-end 2006-2007 surplus was \$14 billion, twice the \$6 billion forecasted by most commentators. Looking ahead, the Canadian Centre for Policy Alternatives—who has proven better at predicting federal surpluses than the Department of Finance—estimates the federal budgetary surplus will be approximately \$11.3 billion in 2008-2009 and \$33.3 billion in 2009-2010.¹⁵

Although reckless tax cuts by the current government and its predecessor have undermined the federal treasury’s capacity (with little to show for it¹⁶), there is still substantial fiscal room to address funding shortfalls in Canada’s social programs, including access and quality issues facing public universities and colleges.

3.1.3 “The Growing Gap”

The ability of average Canadian families to prepare for and pay for post-secondary user fees is a critical point of departure for any discussion of equal access to education. Research conducted by the Canadian Centre for Policy Alternatives has recently shed light on the truth about the shape of the modern Canadian economy, and which families have benefitted from economic growth over the last generation. According to Ellen Russell and Mathieu Dufour in *Rising Profit Shares, Falling Wage Shares*, during the last 30 years productivity and profit share have increased but most Canadians’ wages have not benefitted from this growth. This echoes other work on real wages by Human Resources and Social Development and Canadian Labour Congress economist Andrew Jackson.

14. Canadian Labour Congress. Submission to the 2008 Pre-Budget Consultations (unpublished), 2007.

15. Current economic growth rates held constant.

16. See Jim Stanford’s analysis of the public return on corporate tax cuts, *Canada’s Under-performing Corporations*.

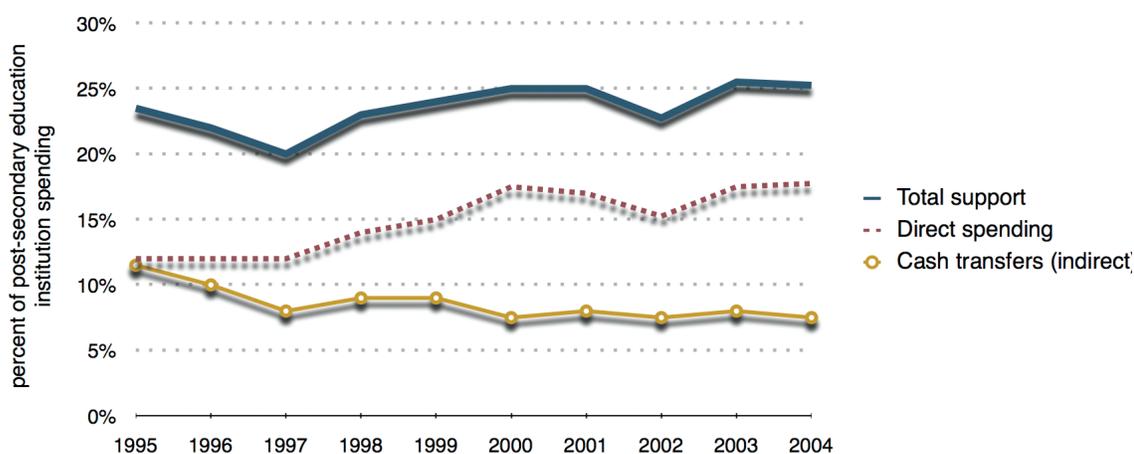
Thousands of Canadians work full-time and are still below the poverty line. About half of Canadians say that they are one or two pay cheques away from being poor.¹⁷ In this context it is difficult to be satisfied with assurances from politicians and university presidents that higher tuition fees will be accompanied by more grants or more generous loan repayment conditions for those who graduate with a \$25,000 student debt. Along with most anti-poverty organizations, the Canadian Federation of Students has concerns about this “don’t worry, be happy” approach to how to manage tuition fees and student debt.

3.2 Federal Transfers

Cuts to cash transfers to the provinces during the mid-1990s have never recovered (see Figure 3.1 and 3.2). Instead, the federal government seems content to use a patchwork of measures directed at either students or institutions (ie. tax credits, support for the indirect costs of research) to achieve policy objectives. Between 1995 and 2004, this direct federal spending for post-secondary education increased from \$2 billion to \$5 billion.¹⁸

It is tempting to forgive the federal government for going this route: indirect support for post-secondary education that flows through the provinces may not always reach its intended target, and if it does, it is the provincial government that will likely get the credit. However, taking an “end run” around the provincial bureaucracy is a short-cut that undermines the stability and accessibility of universities and colleges. By choosing to increase tax credits over restored transfers to the provinces, the federal government contributes upwards pressure on tuition fees because provincial budgets are left to make up the difference.

Figure 3.2 Federal post-secondary education expenditures, direct and indirect



The federal government is coming under increasing pressure to create a dedicated transfer payment for post-secondary education. In the 2007 federal budget, an increase of \$800 million was “ear-marked” for post-secondary education, bringing the annual federal cash transfer to approximately \$3.2 billion. This was the largest cash infusion in recent memory, and good news for a university and college system that is still struggling after more than two decades of cuts or inflationary increases. However, there is significant doubt how this increase will actually increase the quality and affordability of post-secondary education, since there was no discussion with provincial governments about what the funding increase was actually supposed to achieve. As with other no-

17. Poll conducted by Ipsos-Reid for the Canadian Centre for Policy Alternatives.

18. Government of Canada. “2006 Federal Budget.” Department of Finance, 2006.

strings-attached transfers, there is nothing whatsoever from preventing the “ear-marked” funding from going towards paving roads in Nova Scotia or building Olympic infrastructure in British Columbia.

3.3 User Fees (tuition fees)

The marked decline of federal funding for post-secondary education over the last twenty years has resulted in provincial governments and individual post-secondary education administrations replacing the lost funds with an increase to a special flat tax or user fee: tuition fees. Government grants as a share of university operating revenue plummeted over the last twenty years from 80% to less than 60%. As a direct result, the share of university operating budgets funded by tuition fees more than doubled between 1985 and 2005 (14% to 30%).¹⁹ At the beginning of the 1990s, average undergraduate tuition fees in Canada were \$1,464. Today, average tuition fees are \$4,347, but can surpass \$15,000 for many students studying in professional fields. According to Statistics Canada, tuition fees increased at an average annual rate of 8.1% between 1990-91 and 2002-03, four times the rate of inflation.²⁰

As access to university and college has become increasingly restricted due to high user fees, several provinces have in the past number of years introduced tuition fee regulation after successful lobbying by students and outcry from the public. In the last five years, tuition fees have been frozen or regulated in the majority of the provinces. In 2000, the newly elected government of Manitoba reduced and froze tuition fees, currently leaving fee levels in the province at the second lowest in the country outside of Quebec. The government of Newfoundland and Labrador made a dramatic move and reduced tuition fees by 25 percent between 2002 and 2004, and have since kept tuition fees frozen maintaining them at the lowest level outside of Quebec. The province of Newfoundland and Labrador is unique in its regulation of tuition fees. For a period at the end of the 1960s, the province abolished tuition fees altogether.

Provinces in the Maritimes have maintained some of the highest tuition fees in the country. Tuition fees in Nova Scotia are the highest in the country averaged at \$6,571 in 2006-2007, with New Brunswick second highest at an average of \$5,328 per year.

Quebec was unique among the provinces because it never passed the cost of federal funding cuts on to students. Tuition fees in Quebec have been frozen for 35 of the last 40 years and college remains free for Quebec students. The 2007-2008 academic year has however changed the tide for students as tuition fees were allowed to increase by \$50 per semester, and the provincial government has indicated its willingness to continue to let tuition fees rise.

Graduate students, international students, and students in professional programs have faced the steepest increases in tuition fees. Average fees for medical students exceed \$10,000, although dentistry students still pay the most at an average of \$13,463 in 2006-2007. From 2001-2006, tuition fees for law have risen by 65.4%.

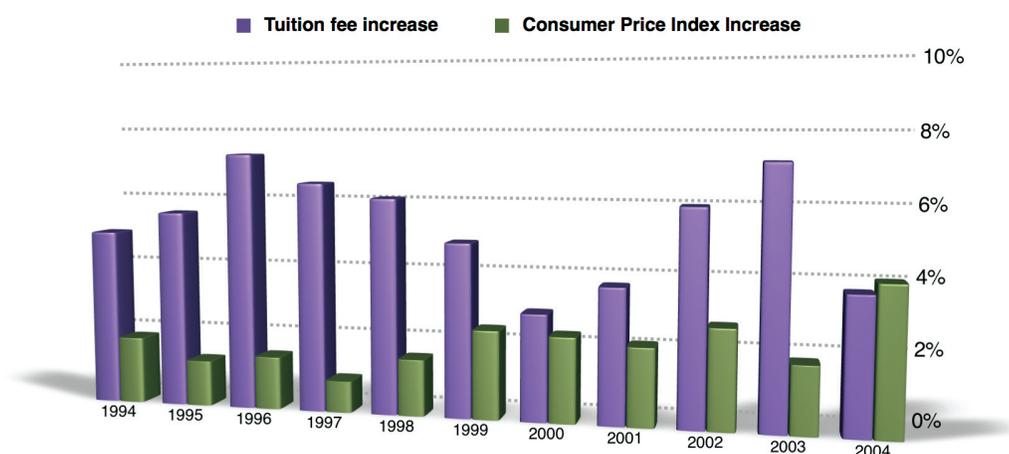
In 2006, graduate student tuition fees increase at twice the rate of those of undergraduate students. Unlike most undergraduate students, graduate students are enrolled year round, and therefore have to pay tuition fees during the summer months. Thus, not only do graduate students pay higher fees, they also pay them for four months more than undergraduate students on the typical fall and winter academic schedules. Until recently, this higher fee schedule for graduate students was offset by “post-residency fees”—lower tuition fees for graduate students in the final years of their degree. Unfortunately, most universities have phased out the post-residency discount over the last decade.

19. Canadian Association of University Teachers. CAUT Almanac of Post-Secondary Education in Canada - 2007. Ottawa, 2007.

20. Statistics Canada. The Consumer Price Index - July 2007. Ottawa, 2007.

Students studying in Canada from other countries probably fare the worst of all, since tuition fee regulation has rarely applied to international students. International students were not charged differential tuition fees prior to the late 1970s. During the negotiations of federal transfer payments to the provinces in 1976, the federal government suggested that introducing differential tuition fees for international students was an acceptable way for the provinces to generate additional revenue at institutions. Tuition fees for these students are now typically three times those of Canadian students' fees.

Figure 3.3 Consumer price index increase and average tuition fee increase, 1994–2004



3.3.1 Funding Post-Secondary Education: Who Should Pay?

The gradual re-orientation in funding for post-secondary education from government support towards individual user fees and individual indebtedness has been a source of significant unease among Canadians. Polling conducted by the Canadian Federation of Students shows a strong desire in every region for reduced post-secondary user fees. When asked about what should be the first priority of government reinvestment in universities and colleges, reducing fees is regularly the most favoured investment among those polled. One recent polling result showed that Canadians prefer, by almost a 2:1 margin, a tuition fee reduction to another one percent reduction in the Goods and Services Tax.

Since its inception, the Canadian Federation of Students has been clear in its policy and advocacy about the role of tuition fees. As the data makes clear, financial considerations are a barrier to equal participation in post-secondary education, and to increase fair access, they should be minimized. State-imposed user fees in the form of tuition fees are no exception. For the Federation, a fair model of financing public post-secondary education has been less a question of who should pay, but rather when. For decades, students have campaigned for reducing up-front user fees and pointed to the progressive income tax system do its job in collecting resources for public education.

Contrasted with the Federation's (and most social justice advocates') view is the position taken by a handful of other education stakeholder organizations and U.S.-based consulting firms. Although higher tuition fees are their objective, it is seldom made clear how much higher and why.

The bolder proponents of higher tuition fees proclaim that fees should be set at "whatever the market will bare". Although the Federation strongly disagrees with this free-market approach to determining access to post-secondary education, the free-market thinkers should be respected for at least having the courage to declare their convictions. Unfortunately, most proponents of higher tuition fees in Canada do not have anything that resembles a vision for

tuition fees beyond the next fiscal year, or worse, are not willing to openly admit to holding free-market beliefs. Without such foresight or honesty, it is hard to discern what, if any, logical conclusion flows from the “tuition fees don’t matter” arguments.

Some have suggested that tuition fees should be fixed to the rate of inflation, or even some fictional index that purports to reflect cost inflation at universities and colleges. No logic is offered as to what particular year should be selected as the base. Presumably those who advocate for user fee increases at the rate of inflation believe that the current fee level represents a historically perfect equilibrium that should be fixed in perpetuity. However, given the current levels of student debt and the shameful participation gap between rich and poor, it is hard to imagine that any jurisdiction in Canada has tuition fee levels that could be considered ideal. It seems that political expediency, rather than principle, defines the position taken by many who oppose tuition fee reductions.

3.3.2 Compulsory Fees

Mandatory ancillary fees have also been used by local university and college administrators to circumvent both the spirit and the letter of provincial tuition fee regulation.²¹ These fees are determined arbitrarily by administrations and levied on students to generate additional revenue for the institution. Between 2000 and 2005 alone, these fees increased 38.6%. Universities in both Québec and Manitoba have undermined tuition fee regulation by charging hundreds of dollars in ancillary fees.

In Ontario, the Canadian Federation of Students is supporting a class-action law suit launched by two students to challenge the ancillary fees charged by Ontario colleges. Unlike in some jurisdictions, there is a modicum of explicit procedure that must be followed in Ontario before increasing these fees, and the Federation is seeking a judgement on the colleges’ adherence to provincial regulations.

3.3.3 International Comparison of Tuition Fees

Many governments across the world have found it crucial to provide post-secondary education at little or no cost. Unfortunately, others continue to allow tuition fees to increase creating barriers to access and leaving students with high debt-load upon graduation. The fact that many countries have chosen to provide post-secondary education at low or no fees demonstrates that allowing fees to increase is more a matter of governmental priorities than any “natural” tendency for prices to rise.

3.3.3.1 Ireland

Tuition fees were eliminated in Ireland in 1995. In addition to eliminating university tuition fees, research funding was enhanced and more faculty were hired. Enrolment doubled during the 1990s which was the period with the most marked financial investment from European Funds—and increased a further 30% in the four years up to 2001 as the full effect of tuition fee elimination was implemented. Following the introduction of free tuition fees, participation among the least well off socioeconomic group increased to 47%.²²

Increased investments in students and their post-secondary education system have resulted in the Irish economy being the strongest of any EU countries for five years in a row. This has also had the effect of stemming out-migration which was once a serious problem for Ireland.

21. Some have tried to argue that students’ union dues are also compulsory fees that are contributing to the problem of financial barriers. This is a fundamental misunderstanding of the concept of user fees. Students’ union dues are a democratically-determined fee for representation and services, compared to compulsory user fees imposed on the user of a public service (university or college). Furthermore, local, provincial, and national students’ unions generally alleviate financial burden through cost-saving services.

22. Carroll, Pat. “Free Fees in Irish Higher Education Did It Make a Difference?”. Dublin Institute of Technology, 2007.

Finally, free education has helped ensure that post-secondary education is identified as a right and the transition from school to university or college is now assumed as a natural progression.²³ In 2003 the government attempted to reinstate tuition fees but fierce opposition forced a retreat from the proposal.

3.3.3.2 United Kingdom

Under the auspices of increasing revenue and quality at British universities, the government imposed post-secondary tuition fees for the first time in British history in 1998. Relying on higher user fees to increase revenue was publicly justified by asserting that low tuition fees subsidize wealthier students at the expense of the poor (see Section 3.3.5 for an explanation of this theory's flaws). Economics Professor Nicholas Barr has been a major proponent of a system of high fees combined with income contingent student loan repayment schemes. The Barr argument is that low tuition fees serve as a subsidy for the middle classes and therefore do not benefit the poor and are, in fact, regressive. The Barr argument for tuition fee reform in the UK was that a system where you deferred the costs and provision of financial assistance to low-income families was progressive because it targeted resources where they were most needed. Barr mistakenly calls this scheme "free" tuition fees.²⁴

The U.K. government was clearly persuaded by these arguments, and as of 2006, students faced an additional £3,000 fee to be repaid after graduation. Repayments are processed through the tax system at 9% of monthly earnings, to begin when a graduates annual earnings surpass £15,000 (\$30,450 CAD).²⁵

A study conducted by *The Guardian* newspaper demonstrated that the operating budgets of universities did not increase after tuition fees were imposed. This occurred because once the costs were downloaded onto students and their families, the government proceeded to cut post-secondary education funding. In fact, public funding for universities fell each consecutive year after tuition fees were introduced. Total per student funding, both public funding from the government and tuition fees, was lower in 2002-03 than in 1996-97, the year before tuition fees were introduced. After only five years, cumulative student loan debt in Britain now stands at £33.4 billion with no improvement in quality or access on the horizon.

3.3.3.3 Scandinavia

Sweden: No tuition fees are charged for post-secondary education study in Sweden. Costs associated with study are paid by the government with financial assistance available for living costs. A living allowance is paid to each student for each semester. Financial assistance consists of a tax-free grant and a loan that is to be repaid with interest. In 2006, the total amount is the sum of the grant and loan is SEK 1,841 per week (2006) for full-time. The student grant is 1,050 kronor per month. In addition to this there is a means tested supplementary grant and a boarding supplement.

Finland: No tuition fees are charged in Finland. The higher education system in Finland consists of universities and polytechnics. The system has been and is currently undergoing significant restructuring. The polytechnic system is relatively new with the first polytechnics made permanent in 1996. Polytechnics are designed to give people the skills they need for the workforce and they also have a regional development aspect.

23. Carroll, Pat. "Free Fees in Irish Higher Education Did It Make a Difference?". Dublin Institute of Technology, 2007.

24. Barr, Nicholas. "Take up Fees". London, 2006. (October 31): *The Guardian*. <<http://education.guardian.co.uk/students/tuitionfees/story/0,,1935263,00.html>>.

25. Meikle, James. "The Issue Explained: Tuition Fees". London, 2007. (January 18): *The Guardian*. <<http://education.guardian.co.uk/students/tuitionfees/story/0,,1993150,00.html>>.

Universities in Finland are governed by the Universities Act which states that universities must provide research, scientific and artistic education at no cost. The universities in Finland are fully public and owned by the state.

Under the Universities Act, universities must promote free research and scientific and artistic education, provide higher education based on research, and educate students to serve their country and humanity. In carrying out this mission, universities must interact with the surrounding society and strengthen the impact of research findings and artistic activities on society.

Student financial aid is available for students in Finland if the student is enrolled in full-time studies with the purpose of getting an upper-secondary school certificate, a vocational qualification, a polytechnic or university degree or additional studies qualifying for a profession.

Elements of the student aid system in Finland include the following:

- Means-testing
- A study grant, a housing supplement and state guarantee for a student loan.
- Interest assistance, assistance for school travel, and subsidized meals
- A student loan guaranteed by the government and then granted by the bank with the terms determined at its own discretion. The time the student has for repayment is usually twice the duration of studies.
- Interest assistance for those with a low income and who have not anymore received financial aid for a specified period.

Denmark: No tuition fees are charged in Denmark. Much like in Sweden and Finland the higher education system in Denmark has a college and a university component. The Danish system aims to ensure every citizen of Denmark, 18 and over, is entitled to public support for his or her higher education. Loans and grants available to assist with living costs which include some of the following components:

- A combination of loans and grants that are means tested.
- For those students who are over 18 and enrolled in higher education courses every student is entitled to a number of monthly grants that correspond with the duration of the programme of study.
- Grants are provided to assist with housing.
- There is a choice of using these grants later, either to prolong the time of studies or under certain circumstances to obtain double grants for a period of time at the end of their studies.
- There are extra grants available should students face situations such as childbirth or sickness that would increase costs.
- Special assistance is provided for people with physical or psychological disabilities.

Norway: No tuition fees are charged in Norway. The loan system provides a combined system of grants and loans.

3.3.4 The “Net Tuition Fee” Myth

Advocates of higher tuition fees have recently began attempts to popularize the concept of “net tuition fees.”²⁶ The theory goes that post-secondary education is in fact more affordable than anyone realizes because if you extend the horizon of financial demands beyond the point of enrolment (when tuition fees are due and payable) to the end of the tax season (seven to eight months after tuition fees are due and payable), then a portion of one’s tuition fees are

26. See *The Student Aid Time Bomb* (Educational Policy Institute) and *Trends 2007* (Association of Universities and Colleges of Canada).

refunded by a buffet of federal, and in some cases provincial, tax credits. The theory also encourages extending the horizon two to four years to the end of the study period so as to include certain provincial loan remissions, thereby “reducing” the “net tuition fees” even more. Thus, by the end of this highly theoretical exercise, future government reimbursements make “net tuition fees” seem stagnant and far below the “gross tuition fees” that students and their families pay (in very non-theoretical fashion) each September.

Although the billions of dollars dispensed by governments in the most inefficient means conceivable through tax credits should not be entirely discounted, the concept of “net tuition fees” is almost entirely useless in a pragmatic policy context. First, nobody has the luxury of paying “net tuition fees”. “Net” fees are a theoretical accounting sleight of hand not enjoyed by a single student at the cashier’s window. For a student enrolling in fall 2007, no landlord or grocer will take her April 2008 tax return or June 2010 loan remission as tender.

Second, the calculation of what modifies “gross tuition fees” (tax credits, loan remission) has failed to incorporate factors that *increase* the cost of post-secondary education. For those nearly 50% of families that borrow to finance university or college participation, compound interest over the course of a five, ten, or fifteen year repayment cycle are conspicuously absent from the “bargain” of net tuition fees.

3.3.5 The “Regressive Subsidy” Myth

There is no misconception more common in policy circles today than the myth that low tuition fees favour wealthy students more than students from low- and middle-income families. First popularized by Economist Nicholas Barr in the UK to justify the Blair government’s massive tuition fee increases, this theory has been applied to the Canadian discussion almost invariably by those who were lobbying for higher user fees long before Barr’s ascent in Britain. The argument goes that public funding should not be used to the benefit of all students, only the most economically disadvantaged. In other words, to reduce the user fees charged to access a public service for all users—rich, poor, or the majority in between—is supposedly regressive (a transfer from the lower income earners to the higher earners).²⁷

The fundamental flaw in the regressive subsidy myth is that it does not consider all of the variables for a full appreciation of income transfers. Although it may be politically convenient for higher tuition fee advocates to ignore the income tax system, doing so will provide an incomplete picture of how user fees interact with transfer progressiveness. Work done by economist Hugh MacKenzie demonstrates that when income tax contributions are factored in, a common sense conclusion about reducing fees prevails:

*More than 60 per cent of families with children are net beneficiaries of the transfer inherent in subsidizing tuition from general government revenues. The claim that subsidized tuition amounts to an unfair, regressive income transfer from poor families to middle- and upper-income families is simply not true.*²⁸

Unfortunately, many authors and U.S.-based consulting firms willingly ignore evidence about income transfers and tuition fee levels. This politically-induced blindness has influenced policy decisions in several jurisdictions, including Ontario. Advisors to Bob Rae during his review of post-secondary education relied so heavily on the myth of the reverse subsidy that virtually all of Rae’s final recommendations collapse under the weight of a rudimentary income transfer analysis. For a thorough dissection of Rae’s financial aid fallacies, see MacKenzie’s *Tuition Trap*.

27. Presumably subscribers to this theory also think that it would be more “progressive” to charge thousands of dollars in user fees for health care services, and support access to care with a sophisticated mixture of mostly loans, some grants, income contingent repayment, and life-long savings schemes.

28. MacKenzie, Hugh. *The Tuition Trap*. Toronto: Ontario Confederation of University Faculty Associations, 2005.

3.4 Persistence/Attrition

A 2003 study on retention and attrition by J. Paul Grayson and Kyle Grayson found that somewhere between 20% and 25% of first year students do not continue to their second year of study, and 20% to 30% discontinue their studies in subsequent years.²⁹ When studying student aid and university persistence, Lori McElroy found that students with little or no debt were more than twice as likely to finish their degree than students with high levels of debt. The completion rate for students with under \$1000 of debt was 71%, while the completion rate for those with over \$10,000 was 34%.³⁰

On average 19%, or 27,000, undergraduate students interrupt their studies each year for a term or longer, before returning to complete their degree. Reasons for interruption of study are as follows for college students and university undergraduates:³¹

Figure 3.4 Reasons for interrupting studies (university students)

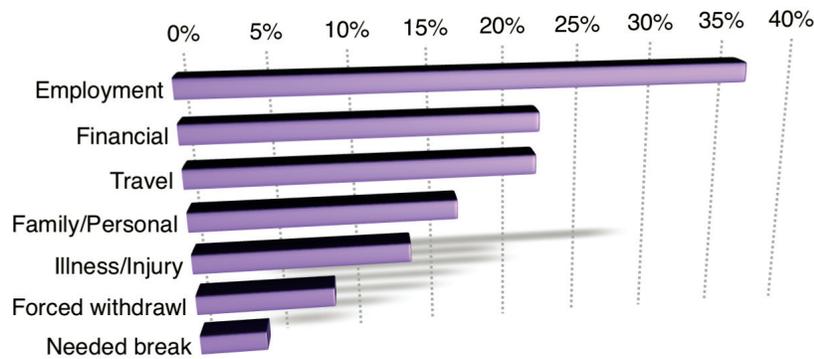
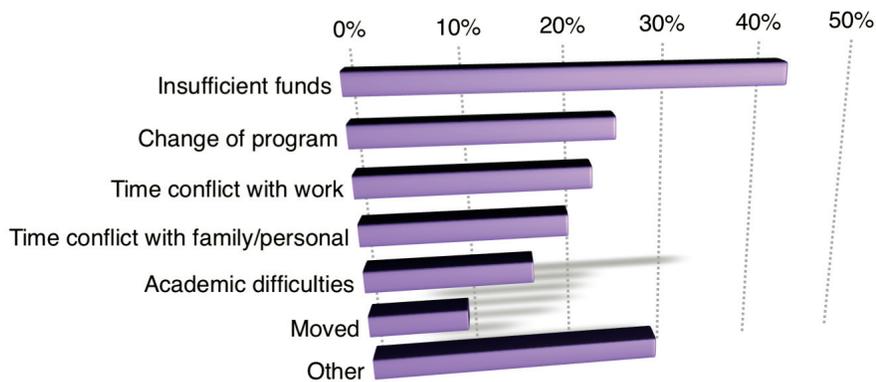


Figure 3.5 Reasons for interrupting studies (college students)



29. Grayson, J. Paul & Kyle Grayson. Research on Retention and Attrition. Montreal: Canada Millennium Scholarship Foundation, 2003.

30. McElroy, Lori. Student Aid and University Persistence: Does Debt Matter? Montreal: Canada Millennium Scholarship Foundation, 2005.

31. Berger, Joseph & Anne Motte & Andrew Parkin. "Student Costs and Resources." The Price of Knowledge 2006-07. Montreal: Canada Millennium Scholarship Foundation, 2007.

3.5 Student Debt

3.5.1 The Growth of Student Debt

According to the federal government, student financial assistance is to be used as a last resort, but due to the severe increases in tuition fees and stagnant wages over the last two decades, students have become more and more dependent on federal and provincial loans to finance their education. In 2004-2005, of the 838,202 full-time university and college students registered outside of Québec, 337,256 borrowed under the Canada Student Loans Program—40% of all full-time students. The federal loan limit was increased that year for full-time students from \$165 to \$210 a week. By 2005, the maximum federal-provincial combined loan limit exceeded \$320 a week (\$10,880 per year) in eight provinces.³²

The table below illustrates how as costs have increased students have had to borrow more money to finance their post-secondary education. When graduating students consolidated all of their Canada Student Loan debt with other types of borrowing, the average debt load in 2006 was \$24,047 for undergraduate university students.³³ Obviously, this shift to higher debt loads means that more students are leaving colleges and universities with arresting liabilities, before they have even begun to look for increasingly-scarce jobs.

Table 3.1 Incidence of Borrowing and Average Amounts Owed at Graduation for Government-Sponsored Student Loans

		1990 Graduates		1995 Graduates		2000 Graduates	
College	Men	45%	\$6,785	44%	\$10,407	44%	\$11,032
	Women	45%	\$7,161	47%	\$10,705	49%	\$11,686
University	Men	53%	\$10,004	53%	\$14,638	52%	\$17,501
	Women	49%	\$10,424	48%	\$15,336	53%	\$17,021

Source: Julie Dubois, *Trends in Student Borrowing and Pathways: Evidences from the 1990, 1995 and 2000 Classes*, Government of Canada, Human Resources and Skills Development Canada, Learning Policy Directorate, Strategic Policy and Planning, 2006.

3.5.2 The Impact of Student Debt

A study of wealth and assets done by Statistics Canada shows that student debt will increasingly have an influence on the ability of graduates to participate in the economy and enjoy the quality of life experienced by past generations. Student loans constituted about 34% of the debt for those under 35 who did not own their principal residence. Home ownership among this age group was only 28%.³⁴

Large debts influence the credit potential for graduates who are trying to purchase houses and cars. If students have difficulty repaying their loan, it is recorded in the student's credit report and likely limits their ability to finance future investments, even when their financial situation improves. A report from Scotland on young graduates in the property market shows that as a result of student debt and other factors, 53% of graduates report being unable to buy a home, with almost one-third unable to save for a deposit, while one in ten graduates believe

32. Berger, Joseph & Anne Motte & Andrew Parkin. "How Governments Support Students." *The Price of Knowledge 2006-07*. vols. Montreal: Canada Millennium Scholarship Foundation, 2007.

33. Berger, Joseph & Anne Motte & Andrew Parkin. "Student Debt: Trends and Consequences." *The Price of Knowledge 2006*. vols. Montreal: Canada Millennium Scholarship Foundation, 2006.

34. Pensions and Wealth Surveys Section. *The Wealth of Canadians: An Overview of the Results of the Survey of Financial Security*. Ottawa: Statistics Canada, 2005.

that they will never be able to buy a house. One in six graduates indicated they would not have taken out student loans if they had known about the impact of debt on post-graduate life.³⁵

A study from the United States also highlights the influence of student debt after graduation. The study finds that the cost of debt is rising faster than the overall cost of living.³⁶ It demonstrates the significant difficulties faced by students trying to repay large debts while meeting their basic needs, such as food and shelter, and saving for longer term investments such as owning a home. The authors recommend establishing more grants, better repayment terms, and controlling tuition fee increases to relieve the student debt burden.

Another U.S. study demonstrates the effect of debt on post-graduation career plans as well as academic choices during study. The study found that when students did not have to accrue debt they were more likely to take lower salary jobs in the public service industries.³⁷ It was also found that student debt-related credit constraints lead to lower rates of alumni donation.

In Canada, a recent poll conducted by the Bank of Montreal highlights how debt or the prospect thereof are influencing education and life choices after graduation. When asked how debt was going to influence the student's life, 52% indicated it would delay a first home purchase, 52% said it would postpone savings or investing, and 19% said they would continue to live with their parents.³⁸

The conditions facing today's graduates led Vancouver *Province* contributor Paul Delean to conclude that:

While there's a perception in some quarters that today's students have it easy, the reality is that many are under significant financial stress. They're indebted to families, governments, banks and/or credit-card firms, living from cheque to cheque, often trying to fit full-time or part-time jobs around their classes.³⁹

3.6 Student Financial Assistance

3.6.1 Debt "Management" Programs and Default

3.6.1.1 Interest Relief

Announced in the 1998 federal budget, Interest Relief (IR) is a program available to Canada Student Loan Program borrowers based on their debt size and net income.

During the initial period of IR, the federal government pays the interest accruing on the loan for periods of six months, up to a maximum of 30 months. Beyond the initial period, borrowers can also apply for a further 24 months of Extended Interest Relief. The program's success in assisting students has been limited however because, like other back-end "debt management" programs (e.g. Debt Reduction in Repayment), it is not an automatic safeguard against adverse financial circumstance. Borrowers must seek out and apply for IR, and any earlier problems with repayment can prevent a borrower from qualifying, no matter how desperate or deserving.

In 2004, the federal government acknowledged lower than expected participation rates in the program by amending the annual income eligibility threshold upwards by five percent, thereby increasing the number of borrowers who qualify.

35. Scottish Widows Bank. Graduates Remain Downbeat About the Property Market in 2006. Edinburgh, 2006.

36. Swarthout, Luke. Student Debt and Consumer Costs in the Minneapolis-St. Paul Area. Washington, DC: U.S. PIRG Education Fund, 2006.

37. Rothstein, Jesse & Cecilia Elena Rouse. Constrained after College: Student Loans and Early Career Occupational Choices: Princeton University & National Bureau of Economic Research, 2007.

38. Bank of Montreal. Student Program Research: Key Findings, a Survey Conducted by TNS Canadian Facts, 2007.

39. Delean, Paul. "Avoiding Student Debt Requires Homework." *The Province (Vancouver)* September 4, . 2007, sec. A: 26.

3.6.1.2 Debt Reduction in Repayment

In 1998, the federal government introduced the Debt Reduction in Repayment (DRR) program, promising that 12,000 students per year would see their student debt reduced. However, due to stringent eligibility tables, an average of only 500 students each year received DRR in its first four years.

In the 2003 federal budget, the federal government committed to harmonizing the DRR income tables with those used for Interest Relief, thereby substantially increasing the number of eligible student borrowers. The 2004 federal budget further addressed the shortcomings of the failed program, increasing the maximum amount forgiven from \$20,000 to \$26,000. Borrowers can now qualify for a debt reduction of \$10,000 in their fifth year of repayment, and re-apply for subsequent reductions of \$10,000 one year later, and \$6,000 after another year.

The number of borrowers accessing DRR has been increasing annually in recent years however the program is still falling far short of its stated target of 12,000 per year. The Canadian Federation of Students recommends further changes to DRR in section 4.2.5.

3.6.1.3 Default

There are a number of factors that can influence a person's chance of defaulting or repaying a student loan. The Chief Actuary of the Canada Student Loans Program has identified tuition fees as the most significant cost driver for the program.⁴⁰ A study by the Department of Human Resources and Skills Development Canada revealed in that average student debt had increased considerably. The number of students reporting problems with debt repayment rose to 31% for bachelor graduates and 41% for college graduates.⁴¹

A 2006 Statistics Canada study explores some of the issues relating to student loan default. They found that of the approximately 128,000 students who consolidated their loans in 1994-95, 39% had repaid their loans, 30% were still making payments, and 31% were in default. 90% of those in default and 28% of debtors were in default within three years of consolidation.⁴² In the study, earnings were found to be correlated with default. The average income over the period 1995-97 was \$13,800 for those who defaulted in the first three years and \$24,200 for those who paid off their loan in full. Whether a graduate defaults is also contingent upon the size of the debt and whether the income is available to make payments. For loans above \$20,000 the default rate increases by 20%, with the exception of those with incomes above \$40,000.⁴³

In deliberations about the causes of student loan default, it is important to consider a variety of factors, including:

- Employment opportunities for the graduate,
- Income following graduation,
- Amount of debt after graduation,
- Other financial liabilities (private debts and mortgages to financial institutions, loans provided by family members), and
- The structure of the repayment system and assistance or supports provided.

40. Office of the Chief Actuary. Actuarial Report on the Canada Student Loans Program as at July 31, 2006. Ottawa: Office of the Superintendent of Financial Institutions Canada, 2006.

41. Dubois, Julie. Trends in Student Borrowing and Pathways: Evidences from the 1990, 1995 and 2000 Classes. Gatineau: Learning Policy Directorate, Strategic Policy and Planning, Human Resources and Skills Development Canada, 2006.

42. Kapsalis, Constantine. Factors Affecting the Repayment of Student Loans. Ottawa: Statistics Canada, 2006.

43. Kapsalis, Constantine. Factors Affecting the Repayment of Student Loans. Ottawa: Statistics Canada, 2006.

A policy framework that assumes students graduate and move directly to a stable career is not realistic given most analyses of the Canadian labour market. Many entry level jobs simply do not provide the earnings needed to repay today's staggering levels of student debt.

In *How much debt is too much?*, Baum and Schwartz defined benchmarks for manageable student debt, proposing that “borrowers with pre-tax incomes less than half the median . . . should not be expected to make loan payments.” The median pre-tax income was \$37,543 for full-time U.S. workers in 2004. Income above that threshold is considered “discretionary,” and Baum and Schwartz argue that graduates should not have to spend more than 20% of their pre-tax discretionary income on loan repayment. Drawing from this definition, the New Hampshire Public Interest Research Group (NHPIRG) found that many graduates who enter certain public sector careers, including teaching and social work, have unmanageable student debt. The NHPIRG judges New Hampshire graduates to be the most indebted in the U.S., with 54% of new teachers who graduated from a public university and 67% of private university graduates starting their career with unmanageable debt.⁴⁴ Nationally, 23% of public and 38% of private university graduates start their careers as teachers with unmanageable debt in the U.S.

These findings give weight to the concern in Canada that increasing levels of student debt will affect graduates' ability to pursue certain careers, and consequently, a diminished capacity to recruit graduates to work in public service fields.

3.6.1.5 Designation Framework

Designation is the process by which post-secondary education institutions are deemed eligible for certain government programs and funding. Currently, the provinces are responsible for the designation of post-secondary educational institutions. In March 2003 the Intergovernmental Consultative Committee on Student Financial Assistance introduced a designation policy framework intended to “guide jurisdictions in the development of their designation policies”. All of the provinces agreed to implement a designation policy that will “manage” the “financial risk” associated with student loans. Institutions that fail to meet guidelines within the framework run the risk of losing student loan designation. The framework was officially implemented in November 2004.

Designation policies are rooted in the notion that low quality programs or institutions produce unqualified graduates who, in turn, cannot find employment to pay back their student loans. By choking off access to “low quality” programs by making student loans unavailable, governments hope to pressure institutions to respond by increasing quality and post-graduate employment strategies. Yet, this logic ignores the fundamental causes of student loan default and the government's role in exacerbating the problem.

During the previous decade, the federal government cut billions of dollars from transfers to the provinces for post-secondary education and training. As a direct result, tuition fees have more than doubled, causing student debt to climb to unprecedented levels. Graduates of public universities and colleges who are unable to make monthly payments are in this position because of a mortgage-sized debt and low-paid work, not because their education was of low quality.

Naturally, educational quality is a significant concern for the largely unregulated private career college industry. Unlike public institutions, which are generally regulated by provincial, national, or sometimes international accreditation bodies, private institutions are generally left to regulate themselves. The federal government should

44. Swarthout, Luke. *Paying Back, Not Giving Back*. Washington, DC: State PIRG's Higher Education Project, 2006.

be concerned about how prepared the graduates of career colleges are for the workforce, especially given the high fees associated with many private training shoppes.

Table 3.2 Designation Status of Post-Secondary Institutions in Canada by Type

Designation Status (standard deviations from avg. default rate)	Number of Public Institutions (Portion of total)	Number of Private Institutions (Portion of total)
Green (above average)	149 (62%)	96 (15%)
Yellow (within one negative SD)	74 (30%)	184 (30%)
Red (greater than one negative SD)	19 (8%)	340 (55%)

3.6.1.6 Student Loan Bankruptcy

In 1997 the federal government undertook a review of the *Bankruptcy and Insolvency Act* (BIA). During that review process, the federal government proposed that provincial and federal student loans be exempt from protection under the *Act* for a period of two years. At the time, a series of hearings were held and a wide variety of organizations, including the Canadian Federation of Students, appeared before Industry Canada committees to argue against the proposal. Despite the testimony heard by Industry Canada, the BIA was amended to deny student loan borrowers the ability to declare bankruptcy for a period of two years.

Less than ten months after this initial change, the federal government amended the Act again and extended the prohibition on the discharge of Canada Student Loan debt through bankruptcy to a period of ten years. This change was buried in the enabling legislation of the government's 1998 "Education Budget". No public hearings were held on the change and the federal government has never supplied any data justifying the change from two to ten years. In fact, when the Canadian Federation of Students began lobbying Members of Parliament in response to these changes, many did not know that they had voted for the change as part of budget legislation.

In 1999, the Federation backed a challenge to the prohibition under the Canadian Charter of Rights and Freedoms. On December 6, 2000, the Federation filed affidavits with the Ontario Superior Court of Justice and the following February, the federal government filed its response material. In its response the federal government deposed a single affiant, an employee of Human Resources Development Canada. The federal government's affidavit offered no substantive response to the Federation's constitutional arguments against the law. Rather, it outlined loan policy measures undertaken since 1998 such as Interest Relief and Debt Reduction in Repayment. In lieu of a defense of the law itself, the federal government argued that a handful of policy initiatives cancel out the right of student loan borrowers to be treated equally under bankruptcy law.

In the meantime, the Senate Committee on Banking, Trade, and Commerce released its report on the Bankruptcy and Insolvency Act in November 2003. The Report called for the reduction of the student loan bankruptcy prohibition from ten years to five years.

On June 30, 2005, Justice Gordon Sedgewick upheld the ten year prohibition. The Canadian Federation of Students chose not to appeal.

Over the past nine years, the Federation has found significant opposition to the law not just among Canada's most desperately indebted graduates, but among bankruptcy professionals, Members of Parliament⁴⁵, and Senators. Recently, a private members bill proposing to eliminate the student loan prohibition was introduced in the previous parliamentary session by Liberal Senator Yoine Goldstein. Senator Goldstein is one of the country's

45. Only Alexa McDonough of the New Democratic Party of Canada has actually initiated private members bills to reverse the law in Parliament.

foremost experts on insolvency. A very thorough review of the issue of student loan bankruptcy is available on his web site.

3.6.2 Privatization of Student Loans

In 2000, after a painful and costly stint with Canada's chartered banks providing the financing and distribution of student loans, the Government of Canada undertook a tendering process to attract a new service provider for the CSLP. The involvement of the banks in the Canada Student Loan Program was an unqualified disaster for students for three reasons. First, the service provided by the banks was sub-standard, resulting in countless mistakes and problems for students. Second, the banks were reluctant to make information public about their service provision, making it difficult to assess performance. Third, the banks' profit motive ensured that they were active advocates for regressive policies to increase return on investment for the millions of dollars tied up in student loans. It is widely understood that the worst Canada Student Loan policies to be introduced in the last decade were at the behest of the banks: the ten-year student loan bankruptcy prohibition and credit checks for student loan applicants.

The reclamation of the role of lender by the federal government was welcome news for students, although the federal government's unwillingness to roll back the prohibition on bankruptcy is deeply unfortunate and perhaps points to a private-sector lender mentality among some senior federal officials.

Under the new service provider contracts, the federal government, not chartered banks, became the lender of CSLs. Edulinx Canada Corporation won the three-year, \$96 million public contract to administer and collect Canada Student Loans disbursed after 2000. Edulinx's original contract was twice extended for a total of three extra years while the federal government prepared to tender a new contract in early 2006.

Although there was a service improvement after the transition from the banks to Edulinx, the Canadian Federation of Students expressed concerns about the privacy of Canada Student Loan borrowers, namely the application of the *United States PATRIOT Act* to CSLP contractors. The *Act* empowers the U.S. government to seize data, including personal information, from U.S. corporations without public disclosure of the seizure. Edulinx was sold by CIBC to the U.S. corporation Nelnet on December 1, 2004.

In December 2006, the second service provision contract for CSLs in the post-2000 era was awarded to Resolve Corporation. At the time of the writing of this brief, it is unclear what Resolve Corp.'s experience or strengths in this area might be, as both Public Works and Human Resources and Social Development fiercely opposed any role for stakeholders during the selection process, unlike the first process six years earlier.

3.6.3 Canada Study Grants

In the 1995-96 school year, the federal government began a program that provided a limited number of Special Opportunity Grants (renamed Canada Study Grants in 1998) for specific groups of students. In its current form, the program provides assistance for five categories of students:

- females pursuing doctoral studies (\$673,217)
- students with permanent disabilities, to offset exceptional education-related costs associated with the disability (\$17,418,996)
- high-need students with permanent disabilities (\$4,628,018)
- high-need part-time students (\$3,556,778)
- students with dependents, in full- or part-time studies (\$57,635,605)

The Canadian Federation of Students supports the role played by the Study Grants, but supports further investigation into their effectiveness at creating true equality of access for students whose life circumstance make them prone to higher education-related costs. It is likely that most of the students in these five categories require greater funding than is currently allocated.

3.6.4 Access Grants

In the 2004 federal budget, the government introduced a grant for first year-students called the Canada Access Grants. Starting in 2005-2006, students from low-income families (annual income below \$35,000) have been eligible to receive a grant equal to the lesser value of one-half of their base tuition fees or \$3,000. In the 2005 Economic and Fiscal Update, the government committed to expanding the grant program with an additional \$550 million over five years to students beyond their first year of study. A federal election occurred before the announcement could be implemented.

In their first year, Canada Access Grants were awarded to over 30,000 students, costing \$52.6 million. The introduction of this grant demonstrates the government's recognition of the role that financial barriers play in inhibiting access for low-income students.

3.6.5 Tax Credits

Since the mid-1990s, the federal government has increasingly looked to tax expenditures as a substitute for directly allocated student financial assistance. As defined by the Department of Finance, tax expenditures include "exemptions, deductions, rebates, deferrals and credits" that serve "to advance a wide range of economic, social, environmental, cultural and other public policy objectives". In total, federal tax expenditures for post-secondary students have grown from \$566 million in 1996 to more than \$1.63 billion in 2004.⁴⁶ This represents a 288% increase (real dollars) and more than the total amount the federal government will spend on direct student financial aid this year.

Despite their large price tag, federal tax expenditures are a very poor instrument to either improve access to post-secondary education or relieve student debt. Moreover, since everyone who participated 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.

The non-refundable Education and Tuition Fees Tax Credits have been the most expensive and widely used federal tax measures for post-secondary education. In the 2005 tax year, 2,219,280 students and their family members claimed the education and tuition fee credits, costing the federal government almost \$1.11 billion in foregone tax revenue.⁴⁷ This was projected to rise to \$1.27 billion by this year.

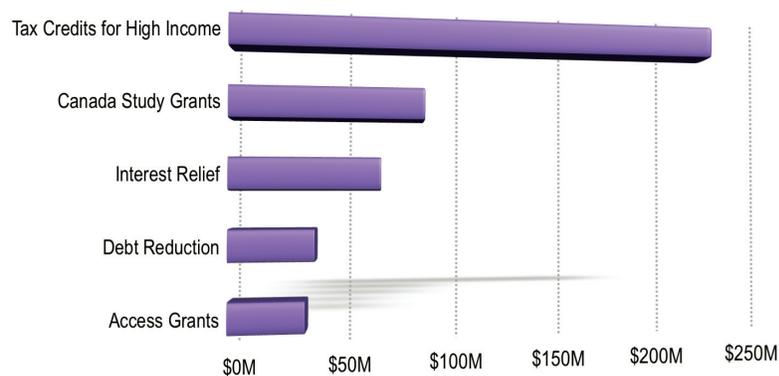
This massive public expenditure, if offered as up-front grants, could replace every federal loan dollar with a grant. The Canada Student Loans Program estimates that it will lend approximately \$1.92 billion in fall 2007.⁴⁸

46. 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.

47. Canada Revenue Agency. "Interim Statistics - Universe Data". Ottawa, 2007. <<http://www.cra-arc.gc.ca/agency/stats/interim-e.html>>.

48. Based on loan uptake calculations in the Actuarial Report on the Canada Student Loans Program as at July 31 2006.

Figure 3.6 Comparison of federal expenditures on student aid⁴⁹



3.6.6 Savings Schemes

The Registered Education Savings Plan is an investment vehicle that allows a contributor to save for a child's post-secondary education. Unlike Registered Retirement Savings Plans (RRSPs), the RESP contributions are not tax deductible. The savings grow tax-free until the beneficiary is ready to go full-time to college, university, or any other eligible post-secondary educational institution. Under the current rules, one can contribute for a lifetime limit of \$50,000. Contributions can be made for 21 years and the plan must be collapsed after 25 years.

The RESP is, in fact, a national system of indirect grants to those who can afford to set aside savings (the income generated by the RESP accumulates tax-free). The foregone tax revenue is tantamount to a grant payable only to RESP investors. Since 2000, the federal government has spent over \$1 billion on the RESP program.

The Government of Canada tops up the first \$2,000 in RESP contributions made on behalf of an eligible beneficiary each year with a grant called the Canada Education Savings Grant (CESG). The grant can be as much as \$500 each year per beneficiary up to a lifetime maximum grant of \$7,200 per child. In other words, those wealthy enough to put aside \$2000 per year from the time their child is born until the end of the year in which the child enrolls in post-secondary education will have received a tax-free government grant of \$7,200.

Research on RESPs shows that high income Canadians benefit far more from this program than do low-income households. In 2001, children from households in the lowest quintile (incomes under \$25,000) made up only 9.7% of families who were saving for post-secondary education. Households with incomes exceeding \$85,000 (the highest quintile) accounted for 31% of savers.⁵⁰ The average savings by high-income families was nearly \$7,000 in 2001, whereas low-income households only saved one-third that amount on average.

In response to widespread criticism about the regressive nature of the RESP and CESG programs, the federal government attempted to make the programs more appealing for low-income Canadians by introducing changes to the CESG in the 2004 federal budget. The CESG payout was adjusted on a sliding scale to, at least in theory, be more generous to low-income recipients. Beginning in 2005, children born into a low-income family can receive \$500 towards an RESP account (the "Learning Bond") plus \$100 for every subsequent year the child's family qualifies as low-income.

49. "High income" refers to individuals with incomes greater than \$70,000.

50. Shipley, Lisa & Sylvie Ouellette & Fernando Cartwright. *Planning and Preparation: First Results from the Survey of Approaches to Educational Planning (Saep) 2002*. Ottawa: Statistics Canada, 2003.

Rather than acknowledge the real forces putting higher education out of reach for low-income families, the Learning Bond's proponents cling to a naïve vision for solving social ills: "Through savings incentives and supports such as financial literacy, low-income earners are encouraged to save for their future goals. With the right incentives the poor can and do save!"⁵¹

Early reports on the actual uptake of Learning Bonds by its low-income target group suggests that the concerns about its utility are well-deserved. Nevertheless, in purely financial terms the amount of money that low-income Canadians may accumulate under a Learning Bond will be wholly inadequate to cope with the rapidly increasing costs of universities and colleges.

3.7 Non-Financial Barriers

The role of non-financial barriers have gained prominence in public policy debates about access to post-secondary education. The factors most often highlighted are the influence of parents, the information available to the family regarding the benefits of post-secondary education, and study habits and academic achievement. Some have gone so far as to assert that non-financial barriers are of at least equal importance in preventing equal access to post-secondary education.

There are a complex set of interrelated factors influencing the likelihood that someone will choose and be able to attend post-secondary education. Parental expectations and supports have an impact on whether a youth will see education as a valuable resource worth pursuing into adult years. Similarly, provision of information about educational opportunities and financial assistance available is also worthwhile. The extent to which a student is academically successful will also be a factor in whether he or she gains entry or even applies for post-secondary education.

Acknowledging non-financial barriers is important for comprehensive policy formulation driven by a sincere approach to improving access. Addressing such barriers through interventions, programs and support mechanisms—especially with a focus on underrepresented populations—is a laudable objective. However, a problem arises when policy-makers and researchers create a hierarchy of barriers or treat factors as if they were distinct and unrelated. Creating such a hierarchy can oversimplify the relationships among barriers to post-secondary education. One must also be wary of the use of research on non-financial barriers for politically expedient arguments to distract from financial constraints or regulation of tuition fees.

The Canadian Federation of Students supports analyses and programs that examine the interrelationships between the multiplicity of factors influencing decisions and motivations. Further, the Federation recommends that inequity be addressed through careful research that can shape policy rather than simplistic magic bullet solutions such as the provision of "more financial information" or "better guidance in high school", all while costs and debt are ever-increasing. This section will briefly consider recent studies that emphasise non-financial barriers and provide analysis demonstrating the complexity of this issue and the problems arising from conceptually separating financial and non-financial barriers.

3.7.1 Parental Expectations and Education

It is fairly common for research on access to post-secondary education to examine parental influences. Research from Statistics Canada demonstrates that participation is consistently highest among students from high-income

51. Peter Nares, Executive Director of Social and Enterprise Development Innovations.

families and those families in which the parents have a post-secondary education. In *Participation in Post-secondary Education in Canada: Has the Role Changed over the 1990s?* the author concludes that university participation rates are more strongly associated with parent's education than with family income.⁵²

The assumption is that if the parents value education, they will foster an environment at home that emphasizes school performance and studying. Table 3.3 shows a relationship between parental education level, whether they expected their children to attend university or college, and their children's post-secondary participation rate. Participation is lower among those aged 18-24 who come from families in which the parents have no post-secondary education. Participation is also slightly lower when parents did not expect their child to attend post-secondary education.

Table 3.3 Post-secondary education participation parental influence, 18–24 year-olds, 2002

Parental Expectations	Total	Child did not attend PSE	Child did attend PSE
Expected child to pursue PSE	2,251,093	33.1%	66.9%
Did not expect child to pursue PSE	818,115	66.2%	33.8%
Parental Education			
One or both parents had PSE	1,108,561	30.2%	69.8%
Parents did not have PSE	1,504,940	43.4%	56.6%

Source: Canadian Association of University Teachers

The strong results for parental expectations cited above beg the question about what factors are shaping expectations. Related financial considerations likely play a large role. Tuition fees in 2004 constituted 45.8% of after tax income among the lowest quintile of income earners, up from 16.7% in 1980.⁵³ Such financial constraints may both consciously and unconsciously shape the opportunities that parents perceive to be available to their children.

3.7.2 The “Information Gap”

Many have suggested that the participation gap between lower and higher income families can be explained by a lack of available information about post-secondary education options and student financial aid. This is a common refrain from organizations such as the Millennium Scholarship Foundation (MSF) and the U.S.-based consulting firm, the Educational Policy Institute. In *Closing the Access Gap: Does Information Matter?*, the MSF argue that a lack of information about the costs and resources function as a barrier to post-secondary education for students from low-income families. The paper proposes that education institutions and government financial assistance programs need to better provide information about loans and grants. The main argument of the MSF paper is summarized by the following statement:

Increasing access for students who consider higher education out of their reach requires that they and their parents are made more aware of the variety of financing options available and how to take advantage of those options.⁵⁴

This theory rests on the free market assumption that rational decisions will maximize one's economic advantage. The idea that people make major life decisions, such as attending post-secondary education, on the basis of a cost-benefit analysis profoundly misunderstands the motivations shaping human behaviour.⁵⁵ For a variety of

52. Drolet, Marie. *Participation in Post-Secondary Education in Canada: Has the Role of Parental Income and Education Changed over the 1990s?* Ottawa: Statistics Canada, 2005.

53. Canadian Association of University Teachers. “The Economics of Access: The Fiscal Reality of PSE Costs for Low-Income Families.” CAUT Education Review 8.2 (2006).

54. Canada Millennium Scholarship Foundation. *Closing the Access Gap: Does Information Matter?* Montreal, 2006.

55. Hutchins, Murrin. “Information, Advice and Cultural Discourses of Higher Education.” *Higher Education and Social Class*. New York: Routledge, 2003. 96-118.

reasons, many families do not consider post-secondary education an option. As explained earlier, the background of the parents and socioeconomic constraints have a complex interaction that is not yet fully understood. Models of human action that rely upon rational economic decision-making fail to capture the complexity of factors that shape decisions around major life choices.

Information provided to students will also be presented in a way that reflects the interests of the source and will often contain an element of advice.⁵⁶ Counsellors may have their own perceptions on the best options for a student and provide information and advice accordingly. Students with significant financial need who are receiving information from government officials or guidance counselors may face subtle streaming into fields or programs that are considered more “marketable”. Governments are motivated to move people quickly through the university and college system at the lowest cost and financial risk. This efficiency directive leads many government financial aid resources to encourage students to study the expected economic outcome of a program before enrolling:

*Postsecondary education is a big investment of your time and money. Make sure that you get the best return on this investment by making informed decisions. You should carefully evaluate the postsecondary institution you plan to attend and the programs in which you intend to enrol.*⁵⁷

A policy emphasis that focuses specifically on information may have the effect of maintaining inequality of access to post-secondary education among marginalized groups. Not only is it unlikely to make meaningful improvements in participation among underrepresented groups, but it may also lead to informal education or employment streaming. Programs offering lower “returns” may be encouraged only for those who are not reliant on student financial assistance. As seen elsewhere in this paper, student debt is already having an influence on the career choice.

Although adequate information is obviously important in allowing students and their families to make informed choices, the provision of financial planning information should not be separated from the political context in which it exists. In part, the reason why the student financial assistance system has become so difficult to negotiate is because tuition fees and student debt have increased so dramatically over the past twenty years. The conscious decision to charge higher fees and have families cope using a patchwork of savings schemes, loans, grants, remission, and tax credits means that the both levels of government are undermining their own communications efforts by needlessly increasing the complexity of paying for public post-secondary education.

3.7.3 Academic Achievement

A recent Canadian study argues that academic preparedness of high school graduates, not the cost of post-secondary education, is the primary barrier to post-secondary education for students in the lowest income quartile. Differences in factors such as standardised test scores in reading obtained at age 15, school marks reported at age 15, and parental influences account for 84% of the gap in participation at the university level. The report concludes that only 12% of the gap in participation is related to financial considerations.⁵⁸ But as stated above, there are quite likely interrelationships among variables that should be considered to appreciate why test scores and reading levels might be lower among certain students.

As is the case with parental expectations, academic achievement is complex and not totally independent of socioeconomic factors. For post-secondary students in the U.K., research shows that part-time work negatively

56. Hutchins, Marnyn. “Information, Advice and Cultural Discourses of Higher Education.” *Higher Education and Social Class*. New York: RoutledgeFarmer, 2003. 96-118.

57. Ontario Student Assistance Program website, accessed September, 2007.

58. Frenette, Marc. *Why Are Youth from Lower-Income Families Less Likely to Attend University? Evidence from Academic Abilities, Parental Influences, and Financial Constraints*. Ottawa: Statistics Canada, 2007.

impacts students' academic performance.⁵⁹ Research in Canada demonstrates that the post-secondary participation rate of students working during the academic year has increased from under 30% in 1970 to 45% in 2000. Over half of the increase is attributed to higher tuition fees.⁶⁰ Thus it seems that financial pressures facing students may exert an influence over academic performance, parental expectations, or both. Most Canadian research on non-financial barriers has had difficulty capturing the true extent to which socioeconomic forces are making an impact on factors traditionally considered independent of class.

3.8 Aboriginal Students

3.8.1 Population Trends

According to the Department of Indian and Northern Affairs, between 1971 and 2001, the Aboriginal population grew by 322 percent as compared to the non-Aboriginal population growth of 37 percent over the same time period.⁶¹ The growth in the Aboriginal population has continued since 2001. Currently, over 30 percent of the Aboriginal population is under 24 years old⁶², and although the 2001 census recorded First Nations as the majority of the Aboriginal population, in the prairie provinces of Manitoba, Saskatchewan, and Alberta, Métis account for almost one-third of the Aboriginal population.

Participation in post-secondary education among the Aboriginal population across Canada is lower than the overall population. According to 2001 census data, 48 percent of the Aboriginal population had high school as their highest level of schooling compared to 31 percent for the total population. Only 4 percent of the Aboriginal population has achieved a university degree as their highest level of schooling, compared to 15 percent of the total population.

Educational attainment also varies by place of residence, which adds further complexities to developing strategies for improvement. As expected, educational attainment is highest in the cities, second highest in towns, third highest in rural areas, and the lowest on reserves. In Manitoba alone, more than 70 percent of on reserve people aged 20 to 24 had not completed high school according to the 2001 census.

The Aboriginal population also has lower income and higher unemployment rates than does the overall population. The average income of Aboriginal people was \$19,132, compared to an average income of \$29,769 for the total population.⁶³

3.8.2 Access

Despite the growing population and the gap in educational attainment levels between Aboriginal and non-Aboriginal students, funding at the federal level for Aboriginal students has remained virtually stagnant over the last decade.

In a 2004 report of the Auditor General, lack of federal funding was cited as the cause of preventing approximately 9,500 First Nations people from pursuing a post-secondary education in 2000.⁶⁴ Between 2001 and 2006, the

59. Humphrey, Robin. "Pulling Structured Inequality into Higher Education: The Impact of Part-Time Working on English University Students." *Higher Education Quarterly* 60.3 (2006): 270-86.

60. Neill, Christine. *The Effect of Tuition Fees on Students' Work in Canada*. Waterloo: Wilfrid Laurier University, 2006.

61. Standing Committee on Aboriginal Affairs And Northern Development. *No Higher Priority: Aboriginal Post-Secondary Education in Canada*. Ottawa: House of Commons, Canada, 2007.

62. Mendelson, Michael. *Aboriginal Peoples and Postsecondary Education in Canada*. Ottawa: Caledon Institute of Social Policy, 2006.

63. Mendelson, Michael. *Aboriginal Peoples and Postsecondary Education in Canada*. Ottawa: Caledon Institute of Social Policy, 2006.

64. Standing Committee on Aboriginal Affairs And Northern Development. *No Higher Priority: Aboriginal Post-Secondary Education in Canada*. Ottawa: House of Commons, Canada, 2007.

Assembly of First Nations estimates that 10,588 students were denied funding from the Post-Secondary Student Support Program, and an additional 2,858 more were denied in 2007-2008 alone.

Access to post-secondary education for Aboriginal people is affected by a variety of factors. Aboriginal students face a number of barriers to participation in post-secondary education. In addition to the financial barriers, researcher Michael Mendelson notes that Aboriginal students may face another set of challenges, including: family and societal expectations, lack of trust of education, familial responsibilities, discrimination, distance from institutions, alienation in post-secondary education, and cultural insensitivities.

Without adequate support and reduced tuition fees, university and college will remain out of reach for many Aboriginal people, who already face a larger number of socioeconomic disadvantages than do non-Aboriginal Canadians.

3.9 Enrolment

3.9.1 Changes in Demographics

Enrolment in elementary-secondary education institutions reached an all time high in 1970-1971 (5.8 million). The ensuing 15 years experienced a continuous decline, reaching a low of 4.9 million in 1986. This was followed by a gradual increase to 5.5 million in 1995-96. Over the next decade enrolment decreased slightly, with just under 5.3 million students enrolled in public elementary and secondary schools in 2003-2004.⁶⁵ Over the same period of time, the number of students who received their high school diploma and were eligible to enter into post-secondary education increased gradually. A generation ago, only 50% of students received their high school diploma compared to 63% in 1991 and close to 85% in 1995.⁶⁶ From 1997 to 2003 the secondary school graduation rate remained relatively constant at around 75%.⁶⁷ Since 1986, the 18 to 24 year age group, from which most university students are drawn, has decreased; yet their full-time participation rate in post-secondary education, has increased from 14.5 % in 1986 to 21.1% in 2005.⁶⁸

3.9.2 Community College Enrolment

Full-time enrolment in Canadian community colleges has grown steadily over the last 35 years. From 1971 to 1985, total enrolment increased annually, both in absolute terms (total number of students) and in relative terms (the participation rate).⁶⁹ From 1986 to 1989 enrolment dropped by 1.7%, but it increased again by 2.4% in 1990. From 1991 to 2000, full-time college enrolment increased by 16.9% reaching a high of 408,781 students.⁷⁰

Grossly out-dated data on community colleges inhibits effective policy planning. See Section 4.3.3 and Appendix 2 for more information.

3.9.3 University Enrolment

Prior to the 1980s, university enrolment could be reliably predicted by basing it on the number of 18 to 24 year olds, but that indicator has proven to be less reliable in the ensuing years. To the surprise of many, the 1980s brought about an increase of 35% in enrolment and since then, enrolment has continued to increase steadily. In

65. Nault, François. Summary Public School Indicators for the Provinces and Territories, 1996-1997 to 2002-2003. Ottawa: Statistics Canada, 2004.

66. Statistics Canada. After High School, the First Years: The First Report of the School Leavers Follow-up Survey - 1995. Ottawa, 1996.

67. Statistics Canada. "Secondary School Graduates". Ottawa, 2005. The Daily. (February 2).

68. Canadian Association of University Teachers. CAUT Almanac of Post-Secondary Education in Canada - 2007. Ottawa, 2007.

69. Goodall, Alan. "Two Decades of Change: College Postsecondary Enrolments." Education Quarterly Review 1.2 (1994): 41-56.

70. Canadian Association of University Teachers. CAUT Almanac of Post-Secondary Education in Canada - 2007. Ottawa, 2007.

the last seven years, full-time university enrolment has increased by over 31 percent.⁷¹ This growth is expected to continue over the next decade despite the fact that the number of youth aged 18 to 21 will begin to decline around 2011.⁷² This is because participation rates, which have been on the rise in the last decade, are more important than changes in the population, when predicting rates of enrolment. As there continues to be a shift to an increasingly-knowledge based economy, there will be an increase in jobs that require a post-secondary education. For instance, a study by the Association of University and Colleges found that between 1990 and 2006, “jobs for university graduates doubled, whereas jobs for those who had not completed any post-secondary education declined”. By international comparisons, Canada’s participation rates are very strong, boosted perhaps by the almost universal participation in the free college system in Québec.

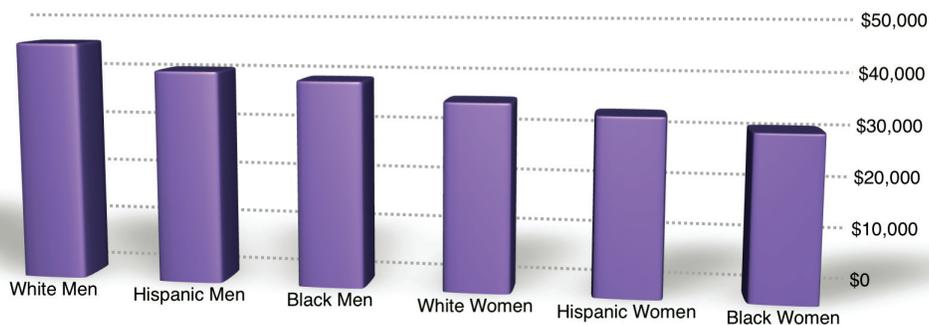
Although the strong overall participation of Canadian youth is cause for some confidence about the next generation’s workforce preparedness, beneath the surface of high enrolment figures lies a more complex and perhaps disturbing trend. The composition of university participation remains deeply a function of socioeconomic background. A 2:1 gap persists between the participation of families from the highest and lowest earnings quartiles.⁷³

Perhaps based on the participation gaps described above, the federal government’s performance on improving access to post-secondary education should not be measured based on *how many* students are enrolling, but instead *which ones*, and at *what personal cost*.

3.9.3.1 Women and Under-represented Communities

While the increased enrolment over the last three decades cannot be explained by any single factor, the increased participation by women was certainly a significant component. Female students have made up more than 50% of college full-time enrolment since 1976-77. Women college students comprised 54% of the total student population in 1991-92, and 53.9% in 2000.⁷⁴ A slightly higher female participation rate existed in the university transfer program (55% in 1992). At the university level, female students represented only 35.1% in 1970, 44.9% in 1980, 51.3% in 1990, and since then women have represented slightly more than half of the full-time student body.⁷⁵

Figure 3.7 Average wages by ethnicity



71. Association of Universities and Colleges of Canada. Trends in Higher Education: Volume 1 – Enrolment. Ottawa, 2007.

72. Association of Universities and Colleges of Canada. Trends in Higher Education: Volume 1 – Enrolment. Ottawa, 2007.

73. This gap does not exist in the more affordable community college sector.

74. Canadian Association of University Teachers. CAUT Almanac of Post-Secondary Education in Canada - 2007. Ottawa, 2007.

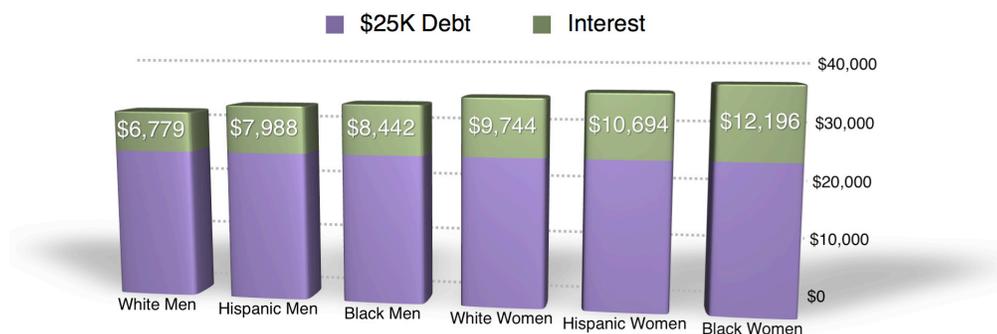
75. Canadian Association of University Teachers. CAUT Almanac of Post-Secondary Education in Canada - 2007. Ottawa, 2007.

As can be seen in Figure 3.7, data from the U.S. shows a stark gendered and racial profile of the workforce for those with a post-secondary education credential.⁷⁶ Along gender lines, Canadian data on university graduates also demonstrates a wage gap:

Female college and bachelor graduates were slightly more likely to be employed than their male counterparts two years after graduation. However, they were less likely to be working full-time ... Women graduates typically earned less than men. However, the gap in earnings was greater for college graduates. Median earnings for female college graduates were 82% of male earnings compared to 88% for bachelor graduates.⁷⁷

As previously discussed, female students on average have more loans and—as illustrated above—face lower average wages than men, women will potentially take longer to repay loans, and therefore pay more interest charges. The U.S. research in Figure 3.7 also suggests that longer repayment times also await students from certain marginalized backgrounds. Thus, as tuition fees increase and many students are forced to borrow more, **student debt is not borne equally by all**. Using the wage data from Figure 3.7, compound interest leads a black female graduate to pay a \$5,400 premium on her education versus a white male graduate with the same \$25,000 student debt paying the same proportion of his salary towards loan repayment:

Figure 3.8 Average interest paid on a \$25,000 student debt based on average wages by ethnicity



This cruel fact is more evidence as to why the high fee/high aid model is doomed to fail marginalized communities. It would be impossible to devise a student loan or grant program that could predict future labour force differences among non-white workers or between men and women. In fact, the only instrument that has the capability to respond on an ongoing basis to changes in wages is the progressive income tax system. By relying on a fair income tax system as the “user pay” mechanism, the perverse effects of compound interest seen in Figure 3.8 would be eliminated.

3.9.3.2 Part-time Students

Post-secondary education students studying part-time face a number of unique challenges. Some of these challenges include: limited availability of programmes and institutions, inaccessible student financial aid, and diminished course selection. Also, part-time students often balance their studies with other responsibilities such as employment and child care.

Generally, part-time students are defined as those who are taking up to 60% of a full-time course load. The definition of part-time student status may vary between different levels of government and from one institution to

76. Price, Derek. *Borrowing Inequality: Race, Class, and Student Loans*. L. Rienner Publishers, 2003.

77. Allen, Mary & Chantal Vaillancourt. *Class of 2000: Profile of Postsecondary Graduates and Student Debt*. Ottawa: Statistics Canada, 2004.

another. The course load cut-off that defines part-time student status may vary within a single institution, as can often be seen when students with disabilities have a lower threshold for what is considered full-time study.

Part-time students lack access the financial assistance programs available to full-time students. For instance, in Ontario, part-time students were disqualified from using the Ontario Student Assistance Program in the 1990s. Part-time students are not able to access bursaries from the Millennium Scholarship Foundation or Canada Access Grants. The assistance available is the part-time Canada Student Loan, Canada Study Grant for high-need part-time students, and the Canada Study Grant for part-time students with dependants.

The overall percentage of part-time post-secondary education students in Canada seems to be declining. Statistics Canada data show that in 1994 part-time students made up one-third of those enrolled at Canadian colleges and universities. The most recent data indicate that, in 2003-2004, part-time students made up 26% of university students across Canada.⁷⁸

In 2003-2004 the average age of part-time students in Canada was 30. In the last decade, there was a 31% drop in the enrollment of students over 30 years of age and a 20% drop in enrolment for those aged between 26 and 29 years. The only enrolment growth among part-time students over the last decade occurred within the 18 to 24 year-old cohort. From 1997-1998 to 2000-2001 the rate at which part-time enrolment grew among this age group was almost five times faster than the enrolment growth rate of their full-time counterparts. Tuition fees in Canada increased 19% during that period, and 127% throughout the 1990s—six times faster than the rate of inflation. Taken together these data suggest that an increasing number of young students are seeking part-time studies instead of full-time studies as a means to reduce the financial burden associated with rising tuition fees.

Between 1997-1998 and 2000-2001 the most significant decline in part-time enrolment was among undergraduate women age 35 and over. Given that women are often the primary care providers for children, this could be attributable to the former Ontario Progressive Conservative government's dismantling of child care subsidies and bursaries in the late 1990s, making post-secondary education more burdensome for students with parental responsibilities.

3.10 Student Employment

The youth unemployment rate, as well as the summer returning student unemployment rate, have consistently been higher than the total unemployment rate and at times over twice as high. The June 2007 unemployment rate for returning students was 11.9% while the general unemployment rate was 6.1%.⁷⁹

3.10.1 Canada Summer Jobs

Formerly known as the Summer Career Placement Program, the Canada Summer Jobs program is responsible for the creation of over 40,000 student jobs annually by subsidizing a portion of the wage for employers. In September 2006, the Conservative government cut \$55 million from the Summer Career Placement program, or approximately 50% of its annual budget. At the time, the Federation made these program cuts a focal point of its lobbying. In polling conducted by the Federation in the months following the cuts, fewer than 20% of respondents agreed with cutting summer job funding.

In March 2007, the federal government re-branded and re-launched the program as “Canada Summer Jobs” with almost 90% of its funding restored (\$85.9 million). The new program also overhauled the application process,

78. Association of Universities and Colleges of Canada. *Trends in Higher Education: Volume 1 – Enrolment*. Ottawa, 2007.

79. Statistics Canada. “Labour Force Survey (LFS) for June 2007”. Ottawa, 2007. (July 6, 2007).

removing the stipulation that every riding, regardless of circumstance, receives employer subsidies. The eligibility criteria now give priority to rural regions, and those with high levels of unemployment or crime, as well as to students facing systemic barriers to participation in the labour force, jobs that provide career-related training, and employers with “social, community, health, or environmental mandates”. The new eligibility criteria should be more objective and fair, since it removed the authority of Members of Parliaments’ offices to assign summer job employer subsidies. As with the previous program, there is still an age restriction (15 to 30 year-olds) and students must have studied full-time in the previous academic year and “intend” on resuming full-time studies the following September to be eligible for a Canada Summer Job.

In May 2007, the Federation was contacted by numerous community organizations who, despite receiving funding in previous years, were denied student job subsidies for summer 2007. For example, Women in Science and Engineering (WISE) in Newfoundland and Labrador—which has received as many as thirty student placements in years past—received no funding for 2007. Many other non-profit organizations have reported similar experiences.

3.10.2 Minimum Wage

Most young people will enter the labour market in minimum wage jobs, or even lower paying jobs, as is the case with provinces who allow for a “training wage”. Table 3.4 shows the current and expected minimum wage rates:

Table 3.4 Minimum Hourly Wage Rates For Adult Workers in Canada, 2007

Jurisdiction	Effective Date	Wage Rate
Alberta	September 2007	\$8.00
British Columbia	November 2001	\$8.00 (\$6.00)
Manitoba	April 2007	\$8.00
New Brunswick	July 2007	\$7.25
Newfoundland and Labrador	January 2007	\$7.00
Northwest Territories	December 2003	\$8.25
Nova Scotia	May 2007	\$7.60
Nunavut	March 2003	\$8.50
Ontario	February 2007	\$8.00
	March 2008	\$8.75
	March 2009	\$9.50
	March 2010	\$10.25
Prince Edward Island	April 2007	\$7.50
Quebec	May 2007	\$8.00
Saskatchewan	March 2007	\$7.95
Yukon	April 2007	\$8.37

Source: Human Resources and Development Canada

A recent Statistics Canada study shows that teens are on average working more at paid employment than in the past. Both the number of hours worked per week and the participation rate among students are increasing. Table 3.5 shows details of the participation rates of teenagers in the workforce. As seen below, the participation rate among teenagers with parents with no post-secondary education is greater than those from families in which the parents have some post-secondary education experience, perhaps suggesting that there is a necessity to contribute financial resources to the family or to save for post-secondary education ambitions.

Table 3.5 Time Spent at Paid Employment

Population	Participation Rate (‘000s)	Participation Rate (%)	Time per day (hours:minutes)
Total	1,228	21	5:04
Age			
15 to 17	676	14	4:33
18 to 19	552	30	5:22
Gender			
Male	593	19	5:03
Female	635	23	5:04
Immigrant parents			
Male	132	-	-
Female	128	-	-
Canadian-born parent(s)			
Male	453	21	4:59
Female	494	25	5:05
Family structure			
Two parents (intact family)	862	22	5:11
Two parents (blended family)	132	24	4:08
One parent	235	18	5:15
Education level of parents			
Both university	213	16	3:45
Mixed	358	27	4:24
Both high school or less	384	22	6:21
School day			
School day	773	17	4:00
Non-school day	456	28	6:12
Location			
Urban	979	21	5:03
Rural	250	21	5:06

Source: Katherine Marshall, *The Busy Lives of Teens*, Statistics Canada, May 2007

At the same time young workers are experiencing minimum wage employment and higher than average unemployment rates, they are also bearing the brunt of educational costs that are increasing far beyond the rate of inflation in many provinces. Not surprisingly, studies have shown a relationship between escalating tuition fees and hours worked. The participation rate of students working during the academic year has increased from under 30% in 1970 to 45% in 2000. Over half of the increase is attributed to higher education fees.⁸⁰

Despite resistance from some employers, there is significant support for increasing the minimum wage among most Canadians. A recent poll conducted across Canada shows that 74% of Canadians support raising the minimum wage to \$10.⁸¹

80. Neill, Christine. *The Effect of Tuition Fees on Students' Work in Canada*. Waterloo: Wilfrid Laurier University, 2006.

81. Canadian Union of Public Employees & Vector Research + Development Inc. *Solid Majority of Canadians Support a \$10 Minimum Wage: Poll Results*. Ottawa, 2007.

Chapter 4. A Vision for the Future

4.1 User Fees (Tuition Fees)

4.1.1 Introduction

One of the greatest tragedies in Canadian higher education is that there has never been a joint federal-provincial strategy for improving this critical social program. As a direct result, provinces have developed wildly different tuition fee and student financial aid policies that reflect short-term partisan or ideological priorities more than specific regional needs. On the federal side, a lack of coordinated inter-jurisdictional planning has led to circular discussions about designing a better Canada Student Loans Program when the federal government has virtually no handle on the education costs, such as tuition fees, that place incredible stress on the Program.

Without a joint federal-provincial strategy on improving access and reducing student debt, the inequality of access that mars the Canadian system will continue uninterrupted. As discussed below, legislation in this area would provide an important framework that has been missing from post-secondary education policy for decades.

4.1.2 User Fees versus Taxation

Section 3.1.1 reviewed concerns about recent tax cuts. The fact that ongoing reckless tax cuts are making Canada's income tax system less progressive is not to deny its current ability to re-distribute wealth. For the very reasons of fair re-distribution, there is a pressing need to increase the strength of the income tax system. The Canadian Federation of Students supports re-adjusting the income tax system, for example by adding brackets, in order to better re-distribute the increasingly polarized incomes in Canada.

Using the progressive tax system as an inter-generational mechanism for financing accessible high-quality public post-secondary education is no doubt the most sustainable, straightforward, and fair model. Unlike the user fee model, which overemphasizes private returns on post-secondary education by charging up-front fees borrowed from assumed future earnings, income taxes are more responsive to graduates' real life income variability and fluctuation (and unlike Income Contingent Repayment schemes, the progressive tax system does not penalise the poor with compound interest). A model that relies on the collective tax system is simply more effective at guaranteeing that, on an individual basis, those who receive the greatest personal benefit from their post-secondary education will also contribute the most in return.

4.1.3 International Commitments

In May 1976, Canada acceded to the United Nations' International Covenant on Economic, Social and Cultural Rights. Part III of *Article 13. Right to Education*, section 2. (C) reads: "Higher Education shall be made equally accessible to all, on the basis of capacity, by every appropriate means, and in particular by the progressive introduction of free education."

In response to Canada's Third, Fourth and Fifth Reports on the implementation of the Covenant, in 1998 and 2006, the UN Committee on Economic, Social, and Cultural Rights concluded with the two following observations about principal subjects of concern:

39. ... The Committee views also with concern the fact that tuition fees for university education in Canada have dramatically increased in the past years, making it very difficult for those in need to attend university in the absence of a loan or grants. A further subject of concern is the significant increase in the average student debt on graduation. (1998 report)

31. The Committee, while noting that scholarships, bursaries, loans and other types of supports are provided to disadvantaged and marginalized individuals and groups, expresses concern about the discriminatory impact of tuition fee increases on low-income persons in many Provinces and Territories since 1998. (2006 report)

In light of the Committee's concerns, it made the following recommendations in 1998 and 2006 respectively:

49. The Committee urges the Government to develop and expand adequate programmes to address the financial obstacles to post-secondary education for low-income students, without any discrimination on the basis of citizenship status. (1998 report)

65. The Committee recommends that the State party ensure by every appropriate means that higher education be made equally accessible to all, on the basis of capacity. (2006 report)

The Committee's recommendations in 1998 also discuss the role of the federal government in working together with the provinces to achieve greater compliance with the Covenant. This recommendation was reiterated again in 2006:

52. The Committee, as in its previous review of Canada's report, reiterates that economic and social rights should not be downgraded to "principles and objectives" in the ongoing discussions between the federal government and the provinces and territories regarding social programmes. The Committee consequently urges the Federal Government to take concrete steps to ensure that the provinces and territories are made aware of their legal obligations under the Covenant and that the Covenant rights are enforceable within the provinces and territories through legislation or policy measures and the establishment of independent and appropriate monitoring and adjudication mechanisms.

The Committee urged and continues to urge the federal government to find ways to ensure that economic and social rights of Canadians can be enforced in legislative means. To this end, the Committee's suggestions are consistent with the call of the Canadian Federation of Students to create a Post-Secondary Education Act that would simultaneously set goals for funding and fees, while respecting the jurisdiction of the provincial governments.

The proposal to engage in a national policy dialogue about tuition fee reductions was swiftly dismissed by the Government of Canada and continues to be downplayed as an area of exclusive provincial jurisdiction. Rather than explore the idea with the provinces, the federal government has chosen to dismiss the recommendations. This position is a simplification of the political reality in Canada, and ignores the historical role of the federal government in post-secondary education. Post-secondary education straddles the same jurisdictional boundaries as health care, and developing a key piece of legislation, such as a Post-Secondary Education Act, including within it a reduction of tuition fees, is not an impossible task prohibited by impenetrable jurisdictional walls. Rather, as later discussed, it is a matter of political will.

As noted by the Committee in 2006, Canada is well-positioned to be implementing all aspects of the Covenant:

10. The Committee notes the absence of any factors or difficulties preventing the effective implementation of the Covenant in the State party. (2006 report)

4.2 A Model for Student Financial Assistance

4.2.1 Introduction

As was demonstrated in previous sections, Canada has a confusing patchwork of student financial aid programs, many of which are probably too generously labelled "aid". The Canadian Federation of Students proposes to radically overhaul the approach of federal-provincial financial aid programs with two objectives in mind: access to post-secondary education and simplification. The timing for an ambitious re-orientation of the Canada Student Loans Program could not be better. Not only is the failed Millennium Scholarship Foundation's tenure coming to a close, but the federal government's fiscal capacity is easily strong enough to make a multi-year, multi-billion dollar investment in student grants and transfers to the provinces for post-secondary education. At this juncture, it is not an exaggeration to suggest that the federal government has the tools and opportunity to cut student debt by at least half within the next few years if the political will exists.

4.2.2 Lessons Learned

There is no shortage of program experience on which to base the transition from a patchwork of primarily loan based aid to a government-delivered need-based grant program. Student debt driven by the existing model of financial aid has ballooned to more than \$12 billion in federal debt and billions more in provincially-sponsored loan debt. Average student debt ranges from \$21,000 to \$28,000 depending on the province, and the resulting hardship is the untold story of this generation.

The two main federal responses to the student debt crisis—tax credits and the Millennium Scholarship Foundation—have failed to improve access to post-secondary education or make a noteworthy dent in student aid for different reasons. As discussed at length earlier in the paper, hundreds of millions of federal dollars are spent each year on tax credits that are blind to financial need and not available to students when most of their expenses are due (see Section 3.6.5 for more detail).

Although it was done at considerable expense, the federal government's first comprehensive attempt at grants failed too. Announced in the 1998 "education" budget, the Millennium Scholarship Foundation was a belated acknowledgement by the federal government of the student debt crisis in Canada. At the time of its introduction, then Finance Minister Paul Martin declared in the House of Commons that the Foundation would reduce the debt of those in the greatest need by \$12,000 and increase access to post-secondary education. However, nearing the verge of its scheduled expiry in 2009, the Foundation has proven to be at best a public relations gimmick, or at worst, a champion of higher student debt. The federal government's desire for good publicity in the area of post-secondary education funding led to the creation of a new and unnecessary bureaucracy.

When the MSF was introduced, provincial governments were asked to sign non-binding agreements to maintain their existing contributions to student financial assistance. In places where Foundation dollars overlapped ("displaced") provincial dollars, the provincial savings were supposed to be re-directed into financial aid, but the record of re-investment has been minimal at best.

The Nova Scotia government simply ignored the agreement, consciously re-directing funds intended for students into other government revenues. Four years passed before the Foundation decided to enforce the agreement, and, in 2003, a new provincial program using Millennium Scholarship Foundation funds was announced. The new program is a complicated "back-end" debt remission scheme that will do nothing to improve access to post-secondary education in Nova Scotia.

In Saskatchewan, the provincial government has re-invested none of the displaced money back into student financial assistance. Despite the signed agreement to invest in reducing student debt, the Saskatchewan government has informed the MSF that it used Foundation funds to keep tuition fee increases moderate. However, since the inception of the MSF, tuition fees have risen in Saskatchewan by 69%. MSF officials consider these hikes to be in line with its agreement with Saskatchewan. Thus, the high-need student in Saskatchewan who was promised by Paul Martin to graduate with \$12,000 less debt has actually seen her debt increased by over \$1500. Senior MSF officials are adamant that the program is working perfectly well in Saskatchewan and that the MSF was never really designed to reduce student debt.

An external review of the Foundation conducted in 2003 concluded that the Foundation's impact on access to post-secondary education has been "limited and indirect to non-existent".⁸² The Foundation continues to deny that the misuse of the endowment has diminished its effectiveness, and refuses to consider re-negotiating its agreements with the provinces that have not re-invested displaced funding.

82. Institute of Intergovernmental Relations. *Canada Millennium Scholarship Foundation: Evaluation of the Foundation's Performance, 1998-2002*. Ottawa, 2003.

From the very beginning, the Foundation functioned as a public relations vehicle for the federal government. In its first year of implementation, the Foundation sent students letters telling them they had won scholarships. In fact, students had “won” nothing; in most cases, the scholarships replaced provincial loan remission. Recipients were simply getting a portion of their student financial assistance from a different source. To further the federal government’s own partisan goals, the Foundation included sample news releases and encouraged students to celebrate their “winnings” by sharing the news with the local community.

In addition to its operational shortcomings, the Foundation has recently become the subject of ethical concerns resulting from lucrative research contracts awarded to former employees. In 2005, the Foundation awarded a \$4 million contract to two of its former employees who left the Foundation to work at a U.S.-based consulting firm. Parliament has little recourse to investigate the actions of the Foundation’s senior management.

With the experience of tax credits and the Millennium Scholarship Foundation in mind, the Canadian Federation of Students proposes that federal tax credits, federal savings schemes, and the Foundation be replaced with a national system of need-based grants administered directly by the federal government.

4.2.3 The Canada Student Grants Program

Any successful national plan for grants requires the collaboration of provincial governments. However, proper incentives, integration, and legislation virtually eliminates the risk of the federal student grants program being held hostage by provincial whims, as happened with the Millennium Scholarship Foundation. Ensuring long-term integrated funding for student financial assistance is at the core of the proposed Post-Secondary Education Act.

The Canadian Federation of Students recommends replacing the Millennium Scholarship Foundation with a \$2 billion need-based grants program that is fully integrated with Canada and provincial loan programs.

The best model for a grant is as follows: when the federal government examines a student’s assessed financial need, the a loan and grant mix should be applied by the federal government. For need assessed below a certain threshold, say \$4,000, the federal government should provide a loan similar to the existing CSLP. For every dollar of need assessed above the designated threshold, the federal government should disburse a grant. For example:

- Mohammed has an assessed need of \$9,350. The federal portion of the financial aid package is a \$5,350 grant and a \$2,400 loan (60% of \$4,000). The provincial portion of the package is a \$1,800 loan, which can be further offset with provincial grants.
- Leah has an assessed need of \$3,100. The federal portion of the financial aid package is a \$1,860 loan (60% of \$3,100). The provincial portion of the package is a \$1,240 loan, which can be further offset with provincial grants.

In this proposal, there is effectively a \$4,000 debt ceiling for a 34-week academic year *before* the provincial government applies their own grants. Unlike with the Millennium Scholarship Foundation, this proposal delivers a loan-grant mix as part of an indivisible package that provincial government cannot selectively apply to assessed need. For provinces with a back-end loan remission program, there will be significant savings, but the proposed Post-Secondary Education Act (or a similar binding agreement) requires provincial partners to re-invest savings from loan remission into grant aid.

The federal grant needs-assessment criteria will be adjusted to eliminate the weekly assistance limits in order to capture more financial need that was unmet by the previous loan system. Needs assessment will also be adjusted to treat disability-related and child care-related costs separately so as to provide full grants to cover these expenses.

4.2.4 Costs and Designation

As mentioned in the next section, grant costs will in part be controlled by a requirement that a portion of increased federal transfers be used to reduce tuition fees. Reduced tuition fees will reduce financial need, taking even more stress off of the federal grant and loan program and the provincial loans program, both in terms of funds disbursed, but also for administration and collection cost. Furthermore, the lower fees will reduce the number of low-need borrowers relying on student financial assistance.

Eliminating the Education Tax Credit, the Tuition Fee Tax Credit, the Textbook Tax Credit, the Registered Education Savings Plan, and the Canada Education Savings Grant will cause an increase in financial need. However, the progressivity of a \$2 billion need-based grant program will more than offset the loss of the credits and tax shelters for those who have legitimate financial need. The Federation is cognisant of the caution recommended by the Department of Finance in interpreting the revenue generated by cancelling tax credits, and uses the estimate for savings in Table 4.1 as a guideline.

The grants model proposed by the Canadian Federation of Students would only be available to students studying at public post-secondary institutions, but students currently enrolled will be grandparented for a period of three years. De-designating private institutions (11% of borrowers) will add approximately 10% to 15% of additional re-directed grants revenue to students in public universities and colleges by 2011.

4.2.5 Graduated Debt Reduction in Repayment

Under the Federation's grant proposal, students will benefit from changes to the Debt Reduction in Repayment program that enable more borrowers to qualify, in part by introducing a graduated element to the amount of loan forgiven. Under the current DRR model, desperate borrowers have to meet very strict eligibility requirements to get the reduction. The Federation recommends that the federal government relax the eligibility for DRR and implement a sliding scale for debt-to-income ratio and the resulting debt reduction. High debt-to-income ratio applicants would receive a larger debt reduction versus borrowers who have a lower debt-to-income ratios.

The Canadian Federation of Students recommends that borrowers be able to apply to the renewed DRR program beginning immediately after the six-month grace period. Under this model, the Interest Relief program becomes redundant as the emphasis should be on *reducing* the burden of debt, not just managing it.

4.2.6 Canada Student Loans Program Enhancements

If the federal government chooses to transition the entire CSLP into to a grants-based financial aid system on a longer time frame than proposed here, the Canadian Federation of Students proposes the following enhancements to meet the needs of student loan borrowers.

- **Grants:** The federal government has the infrastructure best suited to deliver need-based grants to students. It should take this responsibility over from the Millennium Scholarship Foundation when it is wound down.
- **Integration:** The Canada Student Loans Program should make further integration with provincial loans programs a top priority. The new disbursement of grants and the simplification of borrower interaction with the Program both rely on a seamless collaboration between federal and provincial loan administrations.
- **Ombudsperson:** Students need an independent office for dispute resolution and complaints investigation. The staggering levels of debt carried by many former students makes service errors a very serious, often life altering, experience.
- **Interest rates:** Compound interest charges, even at current "subsidized" levels, penalizes low-income earners. The federal government should eliminate interest on student loans and recognise that reducing federal student debt reduces the cost of government borrowing.

- Part-time students: The federal government should study the options for giving part-time students—many of whom have family responsibilities that prevent full-time study—equal access to the Canada Student Loans and Grants Program.

4.3 Federal Responsibility and Leadership

4.3.1 Post-Secondary Education Act

As early as 1976 the Organization of Economic Cooperation and Development (OECD) was critical of Canada's lack of national goals and education policy. The OECD pointed out that all countries have a national interest in the education system because "cultural and national consciousness depend on it." Although provincial politicians are quick to declare post-secondary education the exclusive domain of their legislatures, they are only half right. A distinction must be drawn between "jurisdiction" and "responsibility". Post-secondary education is within the legislative jurisdiction of provincial governments. However, this assignment of legal and legislative authority should not be confused with the responsibility of all levels of government to coordinate their behaviour in order to build the best system of post-secondary education possible. For example, simply because the federal government does not have the legal ability to regulate tuition fees, it retains a moral responsibility to Canadians to work with provincial counterparts to make public universities and colleges affordable, which includes minimizing the role of user fees.

After the increase in cash transfers to the provinces for post-secondary education announced in the 2007 federal budget, the next logical step is to enact federal legislation to govern the funding. 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 should use this willingness to reach an agreement on transfers for post-secondary education, in part by restoring cash transfer levels to at least 1992 levels. To guide negotiations, the federal government should establish this set of Pan Canadian Principles⁸³:

- **Public Administration:** A post-secondary education system that is nationally planned and governed on a not for profit basis.
- **Accessibility:** Post-secondary education will be available to all individuals with the capacity and desire to be educated and/or acquire skills. A comprehensive national system of need-based grants will be the primary financial aid model used by the federal government.
- **Comprehensiveness:** A public education system designed to ensure a complete range of options; university, community colleges, professional and vocational training, distance education, and continuing and adult education.
- **Transferability:** Building on some provincial accomplishments, a national system of credit transfer will be established to eliminate the barriers to moving between institutions and between jurisdictions. This will not involve the complete standardization of curricula.
- **Mobility:** All residency requirements for eligibility for student grants and awards will be eliminated.

In accordance with Canadian Federation of Students policy, funding of post-secondary education for the province of Québec must be subject to negotiations between Québec and the federal government. Until the agreeable

83. Members of the Canadian Federation of Students have also issued support for the draft of a Post-Secondary Education Act written by the Canadian Association of University Teachers which call for the following five principles: Public administration, affordability, comprehensiveness, democratic governance, and academic freedom.

settlement of the Québec/Canada relationship, the establishment of pan-Canadian principles must take into account the uniqueness of Québec as well as the Aboriginal peoples.

The Act would also be explicit about eliminating provincial displacement of federal student grants, including mechanisms to reduce cash transfer entitlements commensurate with student financial aid displacement.

4.3.2 A Federal Department of Post-Secondary Education and Research

In the same vein that the shared jurisdiction of health care has commanded a federal act and a federal department, the Canadian Federation of Students proposes the creation of a federal Department of Post-Secondary Education and Research. By centralizing most federal student-focused and university research programs into a single department, the federal government can better integrate financial aid objectives with the application of the Post-Secondary Education Act. Moving responsibility for university research granting councils out of Industry Canada should also begin to resolve the excessive emphasis on commercialisation that pervades current perspective.

Under the Federation's proposal the provinces and territories will not only retain but they can strengthen their role in post-secondary education. By clearly defining and limiting the areas of federal involvement and establishing stable and adequate funding, the provincial/territorial governments will be unencumbered in their governance over post-secondary education. At present, the responsibility for administering the different aspects of post-secondary education programs at the federal level is divided between several different federal departments.

4.3.3 National Advisory Council on Post-Secondary Education

The Federation proposes the establishment of a National Advisory Council on Post-Secondary Education and Research with a mandate articulated in the Post-Secondary Education Act. This council would advise a Minister of Post-Secondary Education and Research and would bring together students, faculty members, campus support staff, institutional administrators, employers, and workers. The councillors would be democratically elected or selected by a group of their peers to ensure that post-secondary education, student financial aid, and research continue to meet the needs of Canadians and the Canadian economy. To facilitate the harmonization of federal and provincial aid programs, the Council would meet regularly with the provincial and territorial Ministers of Advanced Education.

In order for both the Council and the Department of Post-Secondary Education and Research to make evidence-based decisions about improving equality of access and strengthening quality, it needs the proper information about the post-secondary education and training system. This may seem like an elementary observation, but the federal government is neglecting its responsibility to work with the provinces to collect accurate information about all levels of education administration and outcomes (see Appendix 2). In particular, data on community colleges and Aboriginal students is especially scarce.

The Canadian Federation of Students recommends that at least \$10 million be added to Statistics Canada's branch for collection and analysis of data relevant to post-secondary education and training.

4.4 Federal Transfers for Post-Secondary Education

As shown in Table 4.1 at the end of this chapter, the Canadian Federation of Students recommends increasing federal cash transfers to the provinces for post-secondary education by \$3 billion over three years. A \$3 billion increase will restore federal transfers to 0.41% of Gross Domestic Product (\$6.2 billion in 2010), a level not achieved since the early 1990s. As described in the previous chapter and throughout this section, the federal government has a responsibility to restore stable and predictable post-secondary funding to provincial governments to ensure that Canadians can equitably access high-quality public universities and colleges.

To maximize the effectiveness and accountability of increased federal support for post-secondary education, the federal government should establish a dedicated transfer for post-secondary education guided by Pan Canadian Principles enshrined in a Post-Secondary Education Act. Funding increases are contingent upon reaching benchmarks for reducing tuition fees. In addition to reducing tuition fees, higher federal cash transfers would provide much needed funding for universities and colleges to undertake tenured faculty renewal and provide fair wages to campus support staff.

The new transfer should rise according to a formula comprised of the rate of growth in the Gross Domestic Product and the rate of growth in the student population. The current Canada Social Transfer per capita formula does not properly meet the needs of many provinces. The increase recommended in the brief should be enough to ensure that a shift to a per full-time student formula does not constitute a decrease in cash transfers to any provinces. At an approximate cost of 4% of the surplus over the next three years, the Government of Canada is well-positioned to make this modest investment.

4.5 Aboriginal Student Funding

Although there has been much progress within Aboriginal communities with regards to educational attainment levels, the gap between non-Aboriginal and Aboriginal students continues to grow.

The federal government must fulfill its treaty and fiduciary responsibilities to Aboriginal people. New sustainable funding for Aboriginal education is essential to end the cycle of poverty prevalent in many Aboriginal communities. Funding levels for programs that exist through Indian and Northern Affairs Canada (INAC) are insufficient, and many students are left with adequate financial aid.

In addition to reducing tuition fees, the Federation proposes a significant increase in the Post-Secondary Program of Indian and Northern Affairs, including an immediate elimination of the 2% annual cap on spending increases.

The Assembly of First Nations estimates that the Post-Secondary Education Program requires over \$674 million for 2007–2008 to meet its stated objectives. For the Post-Secondary Student Support Program alone, funding increases of \$197 million are required immediately in 2007–2008, rising to \$233 million in 2008–2009 in order to ensure status First Nations and Inuit students participate debt-free in post-secondary education.

This proposal aims to ensure that no Aboriginal student is denied adequate funding to pursue post-secondary education. This also means expanding current programs and eligibility of the INAC Post-Secondary Education Program to provide support for Non-Status First Nations and Métis students.

As recommended by the Standing Committee on Aboriginal Affairs and Northern Development in their Sixth Standing Committee Report, the Federation proposes that consultations begin immediately with Aboriginal organizations with a view to developing a plan to include all Aboriginal students under the INAC Post-Secondary Education Program.

Indian and Northern Affairs should make full funding for post-secondary education a top priority and take into consideration those who have been denied funding in the past. Categories of expenses covered must reflect the reality and practicality of an Aboriginal students' life.

4.6 Summary of Proposals

At a total cost increase of approximately \$3 billion, the recommendations within this paper will:

- replace the Millennium Scholarship Foundation with a federal grant, reducing loans borrowed by \$2 billion each year
- expand eligibility to the Debt Reduction in Repayment program

- reduce tuition fees whilst increasing revenue for public universities and colleges
- meet Canada's obligations to First Nations and Inuit peoples by increasing support by \$197 million
- create a federal Department of Post-Secondary Education and Research with an advisory council
- increase data collection for accountability and evidence-based decision-making

The proposal to shift spending from universal expenditures on tax credits and savings schemes to need-based grants adds significant progressivity to federal student financial aid. The model proposed here requires no new expense by the federal treasury, but is at least six times more generous than the allocation currently disbursed to provincial governments by the Millennium Scholarship Foundation.

Table 4.1. Summary of proposals and cost

Program	Cost (million)	Note
Creation of Department of Post-Secondary Education and Research	nominal	
Creation of Pan-Canadian Council on Post-Secondary Education and Research	nominal	
Creation of new pse transfer	\$ 0	
Increase to new pse transfer	\$ 3,000	Over three years plus escalator, legislation to reduce fees, total transfer by 2010 = \$6.2 billion
Creation of system of need-based grants	\$ 2,104	Funding generated by eliminating universal tax credits and savings schemes
Post-Secondary Student Support Program	\$ 197	
Debt Reduction in Repayment improvements	\$ 0	Already budgeted for by previous governments. DRR uptake would fall as grant is phased in
Statistics Canada's Centre for Education Statistics	\$ 10	
Reduction in the federal government's borrowing	\$ (130)	
Savings from insufficient debt management measures	\$ (64)	Improved DRR replaces Interest Relief program
Eliminate Textbook tax credit	\$ (82)	
Eliminate RESP tax haven	\$ (215)	
Eliminate CESC	\$ (540)	
Eliminate Tuition Fee and Education Tax Credits	\$ (1,270)	Does not include Student Loan Interest Credit
<i>Total investment in learning</i>	<i>\$ 3,010</i>	<i>Approx. 5% of surplus through 2010</i>

Appendix 1. Summary of Tax Credits

Education Tax Credit

Students may claim a 16% tax credit for the accrued “education amount”. The education amount is equal to the number of months enrolled in post-secondary education multiplied by \$400 for full-time students and \$120 for part-time students.

Tuition Fee Tax Credit

Students may claim a 16% tax credit for tuition fees and ancillary fees paid. In 1987, it became possible to transfer this credit to a spouse, parent, or grandparent. As of 1997, this credit may be carried forward for application in future tax returns.

Student Loan Interest Tax Credit

Students may claim a 16% tax credit for the interest paid in a year during repayment of a Canada Student Loan and provincial student loan.

Textbook Tax Credit

Students may claim a 16% tax credit for the cost of textbooks. The amount is equal to the number of months enrolled in post-secondary education multiplied by \$65 for full-time students and \$20 for part-time students.

Registered Education Savings Plans

Contributions to Registered Education Savings Plans (RESPs) grow tax-free until the time that they are withdrawn, at which point the saved amount is taxable as income for the beneficiary.

Appendix 2. Canada Council on Learning News Release



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Newsroom

Canada's PSE performance: file under "m" for missing

Ottawa, Sept. 20, 2007— Canada has no clear picture of how our post-secondary education is faring on the international stage due to a striking absence of key information, says the Canadian Council on Learning.

In an annual education report released this week by the Organisation for Economic Co-operation and Development, Canada was unable to report figures for 60 percent of the information gathered by the other 39 countries covered by the report.

The 400-page report, called *Education at a Glance*, makes it difficult to ignore the current information gap. The report looks at 96 indicators related to PSE, and Canada was unable to provide data for 57 of these. In these tables Canada is represented by a lower case "m"— for "missing data."

Although Canada spent \$34 billion on PSE during 2007, we lack the data needed for a proper evaluation of our performance in this key sector.

"We can't conduct the analysis—and neither can the OECD—because Canada can't supply even the most basic information," says Paul Cappon, President and CEO of the Canadian Council on Learning.

- Canada ranks last among the 40 OECD member and partner countries when it comes to the amount of PSE information provided for the annual survey—behind countries as varied as the United States, Luxembourg, Chile and Croatia.
- Canada failed to provide any information on participation, enrolment or graduation in our colleges
- We also lacked sufficient data for dropout rates in our colleges and universities
- Canada submitted only two of 28 indicators related to public and private investment in PSE
- Canada was unable to provide any information to the OECD about who participates in our post-secondary education system.

There are three main reasons for this shortfall. In some cases Canada does not collect the information at all. In others, data are gathered, but either too late for the report's deadline or not in a way that is harmonized with the OECD's needs.

The need for better data has been underscored in two recent provincial reports on post-secondary education: B.C.'s *Campus 2020* report, issued in April 2007; and the *Advantage New Brunswick* report, released last week (see quotations below).

Without immediate action to address this information deficit, Canada will not be equipped to make the right decisions and investments in our post-secondary education sector.

"Post-secondary education is vital to Canada's future prosperity and social cohesion," says Cappon. "If we can't assess our performance in comparison to other countries, Canada risks falling behind."

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The Canadian Council on Learning is an independent, not-for-profit corporation funded through an agreement with Human Resources and Social Development Canada. Its mandate is to promote and support evidence-based decisions about learning throughout all stages of life, from early childhood through to the senior years.

Quotations from the *Campus 2020* and *Advantage New Brunswick* reports

"Recommendation 8: Initiate discussions with other governments with a view to obtaining agreement on the collection and reporting of nationally and internationally comparable standards and metrics for data collection and reporting."

—From *Campus 2020 – Thinking Ahead: The Report*, by Geoff Plant, April 2007

"The lifeblood of good policy is good information. Good information, in turn, requires accurate data carefully analysed. The collection of accurate and meaningful data, analysed to yield information useful for policy development, must be an important function of the proposed commission."

—From the *Advantage New Brunswick* report, by the Commission on Post-Secondary Education in New Brunswick, September 2007

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