A Multi-Billion Boost for Post-Secondary Education

The Liberal Government’s mid-term economic update – upgraded to a mini-budget in view of a looming winter election – provided Canadian post-secondary education with a major boost of over $7.5 billion over five years. While the precarious situation in the House of Commons suggests that the Liberals are unlikely to get the chance to implement all these measures before an election, Monday’s statement is still an extraordinary statement of intent from the Government of Canada. Below, EPIcentre examines the individual measures outlined by Finance Minister Ralph Goodale.

• A $2.2 billion commitment over 5 years to reform Canada’s System of Student Financial Assistance such as grants, loans and improved debt management measures, including interest rates. This is the major commitment of the mini-budget, but for the moment it is no more than a placeholder. The Government of Canada has no concrete plans whatsoever to actually spend this money; rather, it is a placeholder indicating the amount of money they would like to spend on student financial aid over the next few years. The intent is in fact to “review (the system) in consultation with provincial governments and stakeholders” and then use the money to make the necessary investments.

Though program specifics are lacking, the wording of the commitment does give two indications of the way the government is thinking:

First – and perhaps most notably – the pledge specifically avoids reference to the Canada Student Loans Program, thus keeping open the possibility that some or all of this money may go to the Canada Millennium Scholarship Foundation or some other body.

Second, there seems to be some interest in reviewing the issue of interest rates on student loans, an issue raised recently by the Educational Policy Institute in a recent report on Global Student Debt patterns and an accompanying backgrounder (available at www.educationalpolicy.org/pdf/Global_Debt_Patterns.pdf and www.educationalpolicy.org/pressreleases/PR050909-Canada.html). High interest rates on student loans have apparently been a persistent irritant within the Liberal caucus recently, which perhaps explains its inclusion in this package.

Interesting, too, is the assumption that this money could be spent within five years.
years. Taking the government at its word, the new investments would seem to hinge on at least a modicum of agreement with the provincial governments. Given the country’s current hectic political schedule, such agreement seems unlikely before the summer, making it impossible to implement changes for the 2006-07 loan year. It will therefore be sometime in 2007 before any significant changes are felt as a result of this announcement—leaving the government only three years to spend over $2 billion.

How significant is the current announcement in the absence of any specific policies? Well, consider the following: with the one-time exception of the creation of the Millennium Scholarship Foundation in 1998, underlying federal expenditures on need-based student aid have actually remained constant or declined over the past eight years. While the government has created a number of significant new programs over the past seven years, (e.g. Canada Study Grants, Canada Access Grants, the expansion of Interest Relief, etc.) the fact is that all new expenditures have been offset by automatic cost reductions resulting from declines in interest rate costs. Indeed, CSL expenditures in real dollars were actually lower in 2003-04 than they were in 1996.

So while this new announcement is vague on detail and will likely be delayed in implementation it is very significant because for the first time in a decade, there is a commitment to a real, permanent increase in federal student aid funding. It is very good news for students and worth a celebration or two.

- A $550 million commitment to expand the existing grant for low-income, first-year students to cover up to four years of undergraduate study

Regular readers will know that EPI was among the first to make the case to switch more student aid funding from a need-basis to an income-basis (see www.educationalpolicy.org/pdf/PoorNeedy.pdf). Monday’s welcome announcement to expand the Canada Access Grant (CAG) program for low-income students cements this as a pillar of government policy.

That said, some questions still remain about this grant, mainly with respect to how the mini-budget’s figures for the four year program can be reconciled with the figures given in the 2004 budget for the one-year program. Budget 2004 asked for $30M/yr. to serve 20,000 clients, which meant an average cost of $1,500 per client. The new program asks for an additional $110M/yr. to serve an extra 55,000 students, implying an average of $2,000 per client. This suggests either that HRSDC is budgeting for relatively large tuition hikes over the next five years, or some of the initial program assumptions have changed.

- A $1 billion investment in 2005-06 in a Post-Secondary Education Innovation Fund

(See BOOST on Page 3)
infrastructure. This is very definitely ever made in Canadian PSE is likely the largest single-year investment the PSE system in a single year; indeed, it amount of money to be absorbed into hold each government to account. expected that relevant stakeholders will money has been spent; instead, it is to the federal government on how the money, there will be no “reporting back” announcements as to the use of the provinces will make public of the money. Though it is expected that Ottawa wants to tilt the ad- additional graduate places towards the hard sciences and engineering; the Canadian Federation for the Humanities and Social Sciences will likely take exception to this. That said, the announcement seems to indicate that Ottawa wants to tilt the ad- additional graduate places towards the hard sciences and engineering; the Canadian Federation for the Humanities and Social Sciences will likely take exception to this.

The $210 million for Graduate Scholarships is probably the best thought-out of the three announcements. As graduate enrolments have grown over the past decade, the granting councils have struggled to keep giving money to a constant proportion of graduate students. That said, the announcement seems to indicate that Ottawa wants to tilt the additional graduate places towards the hard sciences and engineering; the Canadian Federation for the Humanities and Social Sciences will likely take exception to this.

The $150 million for “internationalization” scholarships is curious; although the idea of an internationalization package has been on AUCC’s lobbying agenda since 1997, it has never gained much political traction. Recent popular books by Richard Florida and Thomas Friedman have probably done quite a bit to convince Ottawa that it needs to do more both to attract talented foreign students and make Canadian graduates more “globally savvy”.

(See BOOST on Page 4)
That said, the announcement is studiously vague as to how this will be achieved. Clearly, some of the money will go to Canadian students through some type of scholarship, though on what grounds and for what amounts remains unclear. How much foreign students will be brought to Canada is unclear, though the wording of the announcement suggests that financial incentives are not on the table. Some of the money will not go to students at all, but will be used to integrate Canadian institutions more centrally into certain global research networks.

The $160 million for commercialization – to be managed by Industry Canada on a competitive basis - is meant to create physical facilities like UBC’s Accelerator Centre on campuses across the country. Apparently building on the work of writers like University of California at Berkeley’s AnnaLee Saxenian, the government is convinced that by creating shared facilities, it can speed up the transfer of knowledge between universities and the private sector. It’s worth a try, but it’s also worth noting that the institutions Saxenian lauds are almost all private institutions: this kind of experiment is pretty rare in public sector universities.

The most mysterious of all of the new programs in the mini-budget are the internship and MBA scholarships for engineers, health scientists and natural scientists. Although the $21M for internships are meant to be at private sector companies, it is unclear how the money will be distributed and under what conditions.

Similarly, the $18M for MBA scholarships, to be administered by SSHRC, seems bizarre given that no major organization had advocated for it. Some simple math seems to show that the government is contemplating scholarships of something on the order of $40,000 per year, which is extraordinary, considering how high private rates of return are on these degrees. If ever a program could be called “boutique” it would be this one.

- A $3.5 billion commitment over five years to increase workplace-based training, provide apprenticeship opportunities, improve literacy, essential skills and workplace skills

Last but certainly not least on the roster is a five-year, $3.5 billion increase in funds earmarked for provinces through the Labour Market Partnership Agreements. While the details will be subject to much federal-provincial negotiation, it appears likely that much of this money will filter into Canadian community colleges because of the emphasis on apprenticeships, literacy and essential skills, and workplace skills development. So although this announcement is not directly related to post-secondary education, it is more than likely that most of this money will end up increasing the capacity of post-secondary institutions.

### Questions and Answers on the Mini-Budget

**Q: What’s the likely effect of the mini-budget on federal-provincial relations?**

A: Probably minimal. On student aid, the effect is likely to be positive, as the Government has committed to an extensive pan-Canadian review prior to spending the $2.2 Billion. The only fly in the ointment is a piece of what appears to be gamesmanship about the figure – back in August, the premiers called on the Government of Canada to invest $2.2 billion annually in higher education.

The reaction is likely to be less positive about the $1 billion infrastructure investment, as they would certainly have preferred direct transfers. Moreover, the money for commercialization is likely to run into difficulties – though not insurmountable ones - in Quebec, where the provincial government will likely insist on approving all Quebec “entries” into the funding competition so as to ensure that federal funds are spent in a way consistent with the provincial government’s plans.

Still, the mini-budget marks a change in momentum on federal-provincial relations. Back in August, the Premiers seemed to have seized the initiative on PSE, and spoke grandly about their plans to jointly raise the profile on the issue and push the federal government into an accord similar to that on Health Care. The centrepiece of this effort was a mooted “national summit” on PSE, tentatively planned for the fall, to be hosted by Premiers McGuinty and Charest.

For reasons that remain baffling, even to insiders, the “summit” has not even been scheduled, let alone held. In the meantime, the Federal Government has regained the initiative on the file by proposing a series of concrete policies on PSE, none of which involve an increase in transfer payments, and nearly all of which require at least a semblance of provincial approval prior to implementation.

Because consultations with provinces (which, it should be recalled, were unanimous in asking for bigger federal investments last summer) are built into the proposals, the government can’t fairly be accused of acting unilaterally in areas of provincial jurisdiction. And though there is lots of talk in the mini-budget about building accountability relationships with universities and granting councils, there is no such talk about provinces.

All in all, it’s more accurate to describe this budget as an extension of federal activity in PSE rather than an extension of federal power in PSE.
Provincial Round-Up Education Across Canada

The federal government isn’t the only one that has been making important investments in PSE lately. Herewith a short round-up of recent provincial initiatives:

Alberta’s Post-Secondary Review – Creating “A Learning Alberta”

The consultation phases of Alberta’s post-secondary review are almost under wraps. During the summer, the review committee heard from a number of institutional, student, faculty, literacy and community groups, as well as “average” Albertans.

In September Advanced Education Minister Dave Hancock launched an online survey and hosted a number of regional stakeholder meetings across the province. On November 1st and 2nd, more than 250 stakeholders participated in a forum entitled A Learning Alberta: Framing the Challenge. The background documents for the forum can be found at http://www.educationalpolicy.org/learningalberta/AddlInfo.asp.

In closing the forum, Minister Hancock said that immediate action would take place in three areas:

- Establishing more education opportunities in communities to address the diverse needs of Albertans, with a promise to establish targets for improving literacy rates with a goal of cutting Alberta’s illiteracy rates in half by 2010.
- Support for Aboriginal learning, which will include the establishment of a new Aboriginal education division within the Advanced Education department.
- Transforming the advanced learning system, which will involve giving top priority to research and innovation, expanding the number of graduate students in all disciplines; and focusing on new ways for trades-people to learn in their communities.

Albertans have until November 30th to complete the online survey. The final report of the review is slated to be released in March 2006.

New Brunswick Gears Up for First Round of Tuition Tax Cash Backs

The Government of New Brunswick is expected to provide the first pay outs under their Tuition Tax Cash Back (TTCB) program in the spring of 2006. Legislation for the TTCB is scheduled to be tabled sometime during the 2005-06 sitting of the Legislature.

The program – a first of its kind in Canada – was announced in the 2005 provincial budget. It promises individuals a tax rebate equal to 50 per cent of total eligible tuition costs (up to $10,000) against provincial personal income tax payable, for each post-secondary student who works in New Brunswick and files a provincial income tax return. When fully implemented, this new tax rebate will provide cash rebates to eligible individuals of about $63 million each year.

While the program is unlikely to have much effect as an access program, it is possible that the program may be successful in keeping New Brunswick students in the province; after graduation (currently, roughly 400 NB grads leave the province every year).

Ontario – the Rae Review Bears Fruit

Earlier this year, the Government of Ontario laid out a plan to implement many of the recommendations outlined in the Rae Review, and the province’s 2005 budget delivered the cash needed to move ahead with some of these initiatives.

The budget provided a blueprint for the McGuinty government’s action plan for colleges, universities and training, highlighted by a $6.2 billion cumulative increase in operating grants over five years – the largest investment in post-secondary education in the province in 40 years. Among other things, the plan promises to:

- Increase financial assistance for 135,000 low and middle-income students;
- Increase enrolments in postsecondary education, including enhanced access for aboriginals, persons with disabilities, francophones, new Canadians and first-generation students;
- Expand graduate education by 12,000 students in 2007-08 and 14,000 by 2009-10 through new investments of $220 million annually by 2009-10.

Along with these measures came a promise to maintain Ontario’s tuition freeze for 2005-06 and to work in consultation with stakeholders to develop a new tuition policy. Consultations on the tuition policy are underway; an announcement is expected to come in time for the next budget cycle.

Questions and Answers on the Mini-Budget

Q: Is all the money in the mini-budget “New Money”?
A: Yes and no. It’s all new money in the sense that none of the specific initiatives has been previously announced and none of the money allocated represents existing spending in existing programs. However, some of the money has already been announced in a more general sense.

First, the Government of Canada was already committed, via bill C-48 (the legislative expression of the spring budget deal between the Liberals and the NDP), to spending $1.5 billion on PSE over this fiscal year and next. Monday’s announcement in effect simply subsumes that commitment into a larger, five-year commitment.

Second, the Government was already committed to spending over $1.5 billion on higher education in Ontario as a result of the May 17 Canada-Ontario agreement. Much of the new spending in Monday’s mini-budget simply fulfills these commitments and extends them to the rest of the country.
If anyone needed any convincing about the need for early interventions to promote access to higher education, look no further than a report from the Manitoba Centre for Health Policy entitled How Educational Outcomes Vary With Socio-Economic Status: Key Findings From the Manitoba Health Atlas 2004, available at www.umanitoba.ca/centres/mchp/reports/pdfs/ch.atlas.pdf. The study found that 77% of Manitoba 18 year-olds from high SES groups wrote and passed grade 12 exams, compared to just 27% from low SES groups. Given that kind of disparity at the secondary, the 2:1 ratio of high SES students to low SES students in Canadian universities shouldn’t be considered that surprising – and certainly doesn’t suggest that lowering tuition fees would have much effect on progression rates since there simply aren’t that many low-income students finishing high school in a timely manner in the first place.

Statistics Canada recently published another paper by the estimable Marc Frenette, entitled The impact of tuition fees on university access: evidence from a large-scale price deregulation in professional programs, available at: www.statcan.ca

The paper puts forward some tentative but very intriguing data about the progression of bachelors degree recipients to tuition-deregulated “professional” programs (i.e. law, medicine and dentistry) based on data from the NGS 1995 and NGS 2000. The data show that compared to 1995, in 2000 a greater proportion of Ontario students with both very high and very low parental education were heading to professional school – correspondingly, there was a drop in attendance from people with middling levels of parental education. None of the current leading theories about what constitutes a barrier to education can adequately explain why the middle class might be losing out to both the better-educated and the less educated; and Frenette’s own suggestion (that student aid has offset tuition hike for low-income students but not middle-class ones) doesn’t hold water, either. This is a puzzle that needs addressing, soon.

The CD Howe Institute has published a commentary by David Laidler on the Rae Report on PSE in Ontario (see the Provincial Round-up, above) entitled Redirecting Rae: Some Proposals for Post-Secondary Education in Ontario, which is available at www.cdhowe.org. Laidler gets a number of things absolutely right, notably raising the issue of how new grants programs are creating very high effective marginal tax rates for low-income families (an emerging issue EPI will be tackling in an upcoming publication). His solution: a proposal to provide a first year free of PSE free to all students while allowing tuition to rise in subsequent years deserves some attention and analysis even if it does, at first glance, seem to amount mainly to a subsidy for the middle- and upper-classes.

Also from CD Howe is Public Investment in Skills: Are Canadian Governments Doing Enough? by Serge Coulombe & Jean-François Tremblay. Using direct measures of skills development provided by the OECD’s International Adult Literacy Survey (IALS), the authors set out to demonstrate that improving literacy and numeracy for people at the bottom of the skills distribution is more important to economic growth than producing more highly skilled graduates. As Canada does not fare particularly well internationally in the area of skills development, the authors provide a list of recommendations to Canadian governments on how to do improve the country’s performance and, if their theory proves correct, Canada’s productivity as well. An interesting counter-point to the current prevailing arguments about the urgency of investing more in highly-skilled labour.

Also from Lumina is A Step Toward College Success: Assessing Attainment among Indiana’s Twenty-first Century Scholars by Edward St. John and Jacob Gross, available at www.luminafoundation.org/publications/CollegeSuccess.pdf. This report examines how Indiana’s Twenty-first Century Scholars program, a national model which combines an outreach information-based intervention with a financial aid intervention, has improved college access for low-income students. This may be of particular interest to Canadian academics and policy-makers as Canada Access Grants, Ontario Access Grants, and the Millennium Scholarship Foundation’s low-income bursaries are rolled out across the country.

Finally, the 2005 Maclean’s rankings. Is it just us, or does this not make the splash it used to? Not much movement in the rankings this year: McGill moved into a tie with U of T at the top of the rankings, and McMaster lost most of the ground it made up in its sudden rise up the rankings last year. The most interesting thing about this year’s edition is the editorial decision to accept a four-page fold-out ad from Axe, (a male cosmetics brand), which effectively parodies the whole rankings exercise. A bold move.
Global Debt Patterns: A Matter of Interest

This September, EPI Vice-President Alex Usher released an eight country study on student debt. Global Debt Patterns: an International Comparison of Student Loan Burdens and Repayment Condition reveals that while debt loads do matter, interest rates amortization periods matter more. The study moves beyond debates about income-contingency or non-income contingency as a means of loan repayment and focuses on the specific nature of the debt burden facing students in different countries.

The countries included in the comparison are: Australia, Canada, Germany, The Netherlands, New Zealand, Sweden, the United Kingdom (England and Wales) and the United States. Together, these eight programs represent nearly all of the OECD’s largest and most long-standing public student loan programs. The report looks key data in a comparative context and examines the debt-to-income and debt-service ratios of student loans among students in different financial circumstances in each country. The result is a fairly nuanced view of student loans in international context; no country is consistently “better” or “worse” than the rest; each loan repayment system appears to have specific strengths and weaknesses when compared to other countries.

Exploring the nature of student debt-burdens in a comparative context provides insights into the consequences of program choices that policy-makers in a single country may fail to observe. The report demonstrates that some of the rules regarding student loan repayment that governments have adopted over the years have a greater impact on debt management than does the actual amount of debt itself. The study’s key findings are:

- Amounts of debt issued and the conditions of loan repayment are more important than whether a program is income-contingent or not.
- Interest rates matter – a lot.
- The length of the repayment period is a key variable.
- Total debt matters – but less than most people think.

Upon release of the report the author noted: “Canadian student debt levels are by and large manageable; what is less manageable are the student loan interest rates which are effectively much higher here than anywhere else in the world.” In tandem with the international release of the report, EPI also released a Canada-specific backgrounder, explaining how the government can lower interest rates for 75% of borrowers at no cost, simply by re-arranging certain existing subsidies.

The full report and the backgrounder are available online at http://www.educationalpolicy.org/pressreleases/PR
A Little Knowledge is a Dangerous Thing

EPI Canada released a study this summer that examines how the concept of cost-barriers impacts individual’s choices to invest in post-secondary education. The report, *A Little Knowledge is a Dangerous Thing: How Perceptions of Costs and Benefits Affect Access to Education*, investigates the quality of the information available to Canadians and whether or not this information might affect rational decision-making in such a way as to be called a “barrier” to education in its own right.

The report, authored by EPI Vice-President Alex Usher, finds that substantial differences exist in Canadians’ perceptions of the returns to university education and that these differences are primarily income-related. Canadians significantly overestimate the cost of post-secondary education, and this overestimation is acutely pronounced among individuals from low-income individuals. Individuals also underestimate the income differential between high school and university graduates; this is also pronounced among those from low-income backgrounds. The author notes, however, that while these barriers are actually financial in nature, they are best described as income-based, non-financial barriers.

The results show clearly that given limited and incorrect information, many Canadians – and those from low-income backgrounds in particular – are making rational choices which imply they do not view university education as being a “good investment.” The policy implications of such misestimation of costs and benefits of education are relevant to all stakeholders concerned with equitable access to education.

The full report is available at: www.educationalpolicy.org

Other Recent EPI Publications

*Reframing the Student Loan Costing Debate* – Fred Galloway and Hoke Wilson

This report suggests that the competition between the two US federal student loan programs, the Federal Family Educational Loan (FFEL) Program and the Direct Student Loan (DSL) Program, saves federal taxpayers millions of dollars each year.

*The No Child Left Behind Act of 2001 and the Pathways to College Network Framework: Mutually Supportive Visions and Complementary Goals* – Watson Scott Swail and Adriane Williams

This brief describes how the No Child Left Behind Act and the Pathways to College Network Framework can be partnered when developing and evaluating comprehensive programs for schools interested in preparing children not just for the next grade, but for the next steps in their educational careers.

*No Merit in these Scholarships* – Fay Vincent

This first edition of EPI’s Policy Perspectives was written by Mr. Fay Vincent, a former Major League Baseball Commissioner and University Trustee. Mr. Vincent examines the escalating issue of increased merit-based aid in lieu of aid to deserving students from low-income families in US universities.
In May 2005, EPI Vice-President Alex Usher was in Barcelona, Spain as part of a preparatory meeting to the Second International Barcelona Conference on Higher Education. The main conference will be held November 30 – December 2 in Barcelona (details available at: www.guni2005.org). Alex presented material related to his contribution to the conference and its related publication, namely World Statistics Outlook on Financing Universities, which will be published in the forthcoming publication World Report on Higher Education: The Financing of Universities.

In June 2005, EPI Vice-President Alex Usher was in Wuhan, China, as a guest of Huazhong University of Science and Technology and the Ford Foundation at the conference: Reconciling Growth and Excellence with Affordability and Accessibility in Higher Education in China. Alex’s presentation was on Targeting Student Aid: The Effects on Affordability and Accessibility.

In June 2005, Amy Cervenan and Alex Usher jointly presented their work on Global Higher Education Rankings: Affordability and Accessibility in Comparative Perspective at the 22nd annual Student Financial Aid Research Network conference in Chicago, Illinois. Mr. Usher also presented this work at the European Access Network conference in Vienna, Austria, in July 2005.

Also in June (busy month!), Alex Usher gave a talk at the Canadian Association of Student Financial Aid Administrators’ annual meeting entitled: Loan Repayment Options: Evidence from Eight Countries. Much of this material later became part of EPI’s September publication, Global Debt Patterns: An International Comparison of Student Loan Burdens and Repayment Conditions.

In October 2005, Alex Usher and Sean Junor teamed up with Ken Snowdon of Snowdon and Associates for a presentation at the Canadian Institutional Research and Planning Associations’ annual meeting in Edmonton. The presentation was entitled A New Navigation Tool for Prospective Students, and reflected ideas that EPI and Snowdon and Associates have been developing in association with The Globe and Mail and The Strategic Counsel for a new on-line system that would help students make informed comparisons between Canadian universities. More details on this project will be available in the next EPICentre.

EPI would like to announce two new additions in our Toronto office.

Kim Steele, formerly Policy and Research Officer at the Canadian Alliance of Student Associations, joined EPI in September as a Research Associate. She will primarily be working on Canadian Student Financial Aid issues. Kim replaces Amy Cervenan, who returned to her studies at the University of Toronto this fall.

Sean Junor, formerly Senior Policy Analyst at the Canada Millennium Scholarship Foundation, will be joining EPI as Manager of Knowledge Mobilization, Canada, as of November 25th, 2005.

EPI has moved! EPI moved last June to its own digs in Toronto’s fashion district. Our new address is:

EPI Canada
300-20 Maud St.
Toronto Ontario
M5V 2M5

Visit www.educationalpolicy.org for more EPI news and publications