Canadian Budget Commentary 2008

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Budget Commentary
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Canada Millennium Scholarship Foundation Not Renewed; New Student Grant Program Announced.

Ten years ago yesterday, Paul Martin rose in the House of Commons to announce the Canadian Opportunities Strategy and its centrepiece – the Canada Millennium Scholarship Foundation. From the start the Foundation, which was given an "initial" endowment of $2.5 Billion, has been living with a death sentence as its endowment legally had to be spent by the end of 2009 (in practice, nearly all the money will be gone by next January). Today, Finance Minister Jim Flaherty ended the speculation by confirming that there would be no second act for the Foundation – it will run its course over the next eighteen months and be replaced by a new Canada Student Grant Program.

The basics of the new Canada Student Grant Program are extremely positive. As outlined in the budget, the $350 million currently being spent each year in grants by the Foundation will be replaced not by another endowment but by statutory annual spending in a program to be run by the Canada Student Loans Program. In addition, the new Canada Student Grant will also receive the $138 million in funding which currently goes to the various Canada Study Grants, giving it a total budget of $488 million in 2009-10, rising to roughly $550 million by 2011-12.

Unlike most existing grant funding, which is need-based, the new funding will be income-based. The difference sounds small but as EPI revealed in its research piece Are the Poor Needy, Are the Needy Poor, need-based aid is far more likely to go to higher-income students, whereas income–based aid goes directly to those students from low-income backgrounds who have the greatest access problems. This program will not be the first to focus on income instead of need; in 2005, both the Foundation and the Canada Student Loans Program initiated new income-based programs (based in part on EPI's research on the subject). But the new program will be much, much larger and be available for all four years of study. Students who are "low-income" (exactly how this will be defined has not yet been determined) will receive a flat $250/month; middle-income student (again, yet to be defined) will receive $100/month.

In the broad picture, this is all pretty good news: students are guaranteed that with the end of the Millennium Scholarship Foundation they will not, on aggregate, lose any funding. And – perhaps surprisingly from a conservative government seemingly wedded to targeting "median" voters the emphasis in this program is squarely on helping the poorest in society – which is excellent from an access point of view. This is not to say, however, that there will be no winners and losers. In a number of different ways, the student aid picture will shift.

Though the total amount of grant aid will stay the same, the government seems intent on spreading it out to more students. This will be good news for students from middle-income families, but bad news for low-income families (who will now be receiving less aid)

By shifting from a need basis to an income basis, there will be more grant dollars received by college students and fewer received by university students

CSLP officials have indicated that they will not be respecting the per-capita jurisdictional expenditure formulas used by the Foundation; as a result, we can expect that more grant dollars will go to students in Manitoba, Saskatchewan and the Atlantic provinces and fewer dollars will go to students in Alberta, BC and Ontario.

These issues might cause some friction with provinces and with student groups who may not like the implications, but from a public policy perspective they are probably not overly serious. There are, however, three very major unresolved issues around the new grants which do give grounds for concern and which will require urgent attention.

Canada Study Grants for Students with Dependents seem to have been eliminated. The budget is very clear on one point: existing study grants will be merged with the new grant money. CSL officials will not say for certain that the grant programs for high-need part time students, for female doctoral students and – most importantly – the $70 million grant for students with dependents appear to have been axed. Publicly, what they are saying is that they are going to consult with provinces about this. But clearly the budget documents and financial projections assume that these many small programs are going to turn into one big one. The only existing grant program CSL officials were willing to rule out from the axe was the Study Grant for Students with Disabilities.

Independent students appear to be eligible for the low-income grant. In previous iterations of low-income grants, the grants have been based on family income. This is fine as long as one knows the student's income to begin with. But for independent students (i.e. those who are 4 years out of secondary school or have spent 2 consecutive years in the labour market), parental contributions are not required and so data on parents income is not collected. Earlier low-income grant programs have only been open to dependent students, but preliminary discussions with CSL officials suggest that this new program will be open to both dependent and independent students. Since all independent students are effectively "low-income", presumably all independent students will be eligible for a $2000/year grant. This could blow an enormous hole in the budget: current projections are based on 240,000 eligible recipients, but research suggests that there are over 500,000 independent students in the system. If all of these are in fact eligible, then this would inflate program costs to well over $1 billion. This loophole can be fixed, but doing so could be fraught with technical and legal problems.

Quebec stands to lose $80 million in student aid funding from Ottawa. Intriguingly, despite the (largely inaccurate) statement in the budget to the effect the new CSGs are less of an intrusion into provincial jurisdiction than the Foundation (CSLP dictates terms to the provinces – the Foundation, to a considerable extent, allows provinces to define their own projects), the biggest potential loser of this proposal in financial terms is the Government of Quebec. Here's why: the budget makes it clear that provinces may opt-out of this new program under the same rules as the Canada Student Loans Program. Presumably, this is a sop to the soft nationalists in Quebec who have never liked the Foundation and have demanded an opt-out ever since 1998. But the CSLP only offers an opt-out for provinces who offer "comparable programs". The problem is that when it comes to income-based grants, the Justice Department has already ruled that Quebec does not have a comparable program. In 2005, when the Government of Canada brought in its first income-based grant, Quebec was denied a compensation payment because its program was need-based rather than income-based. In order to receive the grant, either Quebec would need to change its student aid program (which would be a great idea, but will never happen just because Ottawa says so), or the Justice Department would have to rescind its opinion (possible, but not likely), or the Canada Student Financial Assistance Act will have to be amended (the likeliest option).

These three problems will clearly cause people a lot of headaches over the months to come, but they are fixable and should not detract from what is overall a pretty good-news story: students will not lose out when the Millennium Scholarship Foundation's term ends. Two things that will be missed, however, are the Foundation's widely-admired merit and research programs. These, apparently, will not be picked up by the Government of Canada.

Changes to Canada Student Loans Program

The federal budget calls for the allocation of $123 million over four years to help "streamline and modernize" the Canada Student Loans Program. The $123 million will fund three new initiatives aimed at improving the service and supports available to students and families.

The new investments are:

- $23 million over four years for a new CSLP website.

This new service model will expand and improve existing services and allow students to manage their loans online from application to repayment.

- $26 million over four years to provide increased support married students.

This injection of money is aimed at narrowing the gap between the expected contributions of parents and spouses by lowering the expected contribution of spousal income to the cost of education. This initiative in part appears to be due to research first conducted by EPI in 2004. (see "I Love You, Brad, But You Reduce My Student Loan Eligibility."

- $74 million over four years to make the CSLP more responsive to the economic circumstances of borrowers.

The budget has allocated a fairly large sum of money to this, but details on how it will be spent are scarce. The money could presumably be used in one of three ways: to reduce loan interest during the 6-month grace period following graduation, to improve the current Interest Relief (IR) program, or to improve the Debt Reduction in Repayment (DRR).

A minor change to RESPs was also announced, to allow an account to be open for 35 years instead of 25 and to extend the contribution period accordingly. A technical change to the rules regarding timing of Educational Assistance payments under the RESP system was also made.

New Investments in R and D

During the past decade, a large proportion of the overall growth in Canada's investments in R&D have been made directly by Ottawa through the three federal research granting councils (Social Sciences and Humanities Research Council, Natural Sciences and Engineering Research Council, and Canadian Institutes of Health Research) and through a series of recently created and specifically targeted initiatives funded through Industry Canada such as the Canada Research Chair program, Indirect Costs of Research, Canada Graduate Scholarships, Canadian Foundation for Innovation, etc. As a result of Budget 2008, that dominant and direct federal government role in generating R&D activity is likely to continue:

- An additional $80M to the granting councils ($34M to NSERC, $34M to NSERC and $12M to SSHRC), an increase of roughly 5%. However, as in 2007, the Government is not allowing the granting councils to set their own priorities with this money. NSERC funding is only permitted to go to research related to the automotive, manufacturing, forestry and fishing industries. CIHR funding has to be targeted at research on health needs of northern communities, health problems associated with environmental conditions and food and drug safety. SSHRC funding is restricted to studies involving the social and economic development of the north and how the environment affects the needs of ordinary Canadians.

- An additional $25M over two years to establish yet another new component of the Canada Graduate Scholarship program that will eventually attract as many as 500 top Canadian and international doctoral students each year to Canadian universities (at a cost of at least $25M when fully implemented), as well as $3M over two years to establish a new stipend that will allow CGS recipients to study at international institutions (all of this is in addition to 1,000 additional regular CGS graduate awards already announced in Budget 2007);
- An additional $15M per year for the Indirect Costs of Research program, bringing the total funding levels from $315M to $330M. This means, however, that the overall matching ratio will continue to fall even further below the 40% target originally considered optimal for indirect costs funding;
- $21M over two years to establish up to 20 Canada Global Excellence Research Chairs in the environment, natural resources and energy, health, and information and communication technologies. Since the allocation/award formula has yet to be established, and each Chair is expected to cost as much as $10M over seven years, for a total investment of $200M, the devil will clearly be found within the details.

Continuing the current government's focus on the hard sciences, there were also some targeted one-time investments made in specific areas of the research sector:

- An additional $140M for Genome Canada;
- An additional $10M over two years to support the Canadian Light Source synchrotron (Saskatoon);
- A $20M endowment in 2007-08 to enhance the Canada Gairdner International Awards in medical science.

The business sector remains the largest source of R&D investments in Canada, but since 2003 growth there has slowed and in terms of growth rates lags significantly behind the public sector. In an attempt to jump-start growth in the private sector, Budget 2008 introduces $70M worth of changes to the Scientific Research and Experimental Development Tax Incentive Program. Central changes include the introduction of adjustments geared toward enhancing support for small and medium-sized businesses in addition to the introduction of coverage of some SR&ED costs incurred outside of Canada. In addition the federal government announced in Budget 2008 $250M over five years to support R&D in the automotive sector. The process by which this funding will be allocated is unclear.

On the surface, this all seems like good news for Canadian universities. Ten years ago, just over 27% of all R&D activity (an estimated $4.4B) took place within the higher education sector. In 2007, the dollar value had increased to more than $10.4B, and the proportion of the national total had grown to 36%. But there are costs as well:

Scarce provincial resources that many feel should be earmarked to develop post-secondary capacity and quality at the undergraduate level are instead being diverted to funding the required matches for billions of new federal research dollars.

Provinces with less revenue-generating and spending capacity are watching their institutions fall further and further behind. While large research universities such as the University of Toronto and McMaster University are generating an average of approximately $300,000/year in research activity per faculty member, many smaller liberal arts institutions are averaging approximately $25,000/year. This is leading to growing disparities both among institutions, especially when it comes to the recruitment of faculty members, but also between provinces and regions.

Some of the biggest R&D investments at Canadian universities are being made in sophisticated equipment and laboratory space that will also need to be upgraded and/or replaced during the coming years. Someone at some point will certainly need to find dollars for those longer term costs.

The Government of Canada is slowly changing the focus of the granting councils from basic, researcher-driven research to more applied, policy research. This approach has its benefits, of course, but it also has its costs.

Updates from previous years

In the last budget brought in under the Liberal Government, a one-time $1B investment in post-secondary infrastructure was announced and funds transferred to provincial governments in the 2007/08 year. Despite language at the time suggesting that there would be some reporting on how this money would be spent, Budget 2008 provides no clues as to how this money was disposed of.

Similarly, last year the Government of Canada created a separate funding envelope within the Canada Social Transfer designated specifically for post-secondary education. This envelope was due to increase by $800 million in the coming (08-09) fiscal year and increase by 3% thereafter. At the time, the Government of Canada promised that this funding would come with requirements for appropriate reporting and accountability to Canadians. Budget 2008 makes absolutely no reference to any such reporting, suggesting that despite the fanfare that surrounded the creation of a PSE “transfer”, the federal government actually considers this money to be an unrestricted transfer to the provinces.

Conclusion

Overall, this was a good but not great budget for higher education in Canada. There is money for research spending, though the picture here is not unmixed. The largest sums of S and T money seem to go to businesses, not universities. This is understandable, perhaps, given business' recent track record, but a let-down for institutions nonetheless. There is more money for granting councils, but the government seems increasingly inclined to cherry-pick "winners" in terms of research funding areas. A number of smaller boutique-like programs were also announced, each of which is worthy on its own but collectively does not seem indicative of a coherent overall strategy.

On student aid, a major question mark over the future of grant aid in Canada was erased, but in terms of total dollars going to students, it's really just the status quo. The targeting of aid was – from EPI's perspective at least – improved, though there will be winners and losers in the shake-up and some major questions remain with respect to program design. Married students get a boost, program delivery should – in theory at least – be improved and money for unspecified improvements in loan repayment was introduced.

The end of the Foundation will be applauded by some and mourned by others. For nine years, it has provided a different way of doing business in student aid. Indeed, without the findings of its research program, it is doubtful that the Government of Canada would ever have undergone the profound re-think of its programs that culminated in today's CSG announcement. And most provincial student aid offices would likely dispute the Budget`s claim that the CSL represents a less intrusive version of federalism than the Foundation; for all the difficulties of its birth, in the end it forged very productive working relationships with provinces. In the end, the Foundation died as a result of the same vagaries of politics through which it was created.

The only real sad note today was the way Minister Flaherty chose to deliver the news of the Foundation's end, dismissing it with a couple of half-baked criticisms of the Foundation's performance which in truth could equally be levelled at the Canada Student Loans Program. Within the very weird strictures imposed by its original legislation, the Foundation did a good job of delivering the best possible need and merit programs to students, and immeasurably improved the public policy debate on student aid. The auditor-general said as much in her last report on the Foundation; a classier Minister would have echoed it. The Foundation may have too weird a structure to deserve renewal, but it nonetheless deserves a very great vote of thanks from all Canadians for its work over the last eight years.