

Educational Policy Institute

Student Aid Time-Bomb:

**The Coming Crisis in
Canada's Financial Aid System**

Sean Junor and Alex Usher



Canadian Educational Report Series

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This paper is dedicated to our good friend and colleague Tom Mortenson. Tom warned us about the perversion of student aid for vote-buying purposes years ago. Unfortunately, he was right.

DISCLOSURE:

This paper makes reference to the Canada Millennium Scholarship Foundation. In the interests of full disclosure, both authors have previously worked for the Foundation and the Educational Policy Institute has previously received money for work performed on the Foundation's behalf. Neither the authors, nor the Educational Policy Institute, received any payment from the Foundation or any other organization for this work.

EXECUTIVE SUMMARY

This paper describes a looming crisis in Canadian student financial assistance.

It begins by summarizing the known evidence with respect to student financial assistance. It notes that many studies have emphasized the central importance of grants targeted to low-income students as a means to expand of access to post-secondary education, but that the same studies have tended to show that subsidies for higher income students have little or no effect.

The paper then looks at four sets of threats which are currently converging on the student aid system and especially its system of aid for low-income students.

First, there is the increasing disregard of financial need as a means to distribute aid. New tuition freezes and tax credits are costing governments billions of dollars annually, but do not target aid to those who need it most. Even subsidized student loans are increasingly available without regard to need. Governments' current desire to spend money on these kinds of measures makes it less likely they will spend money on policies that actually help the poor.

Second, there are the rising costs in the country's student loan system. Rising loan interest costs and expanded eligibility criteria threaten to increase the underlying loan costs by approximately \$450 million.

Third, there is the planned death of the Canada Millennium Scholarship Foundation. This organization, which now provides \$350 million per year in grants to high-need and low-income students, is due to deliver its last set of grants early in 2009, and the Government of Canada has yet to indicate how it will replace this money.

Fourth, while these very serious issues are endangering the health of aid programs designed to help low-income students, Ottawa seems prepared to engage in a round of discussions with provinces with a view to possibly withdrawing from the field of student assistance and handing responsibilities to the provinces. This may or may not be a good idea – the danger lies in the possibility that these discussions will distract policymakers and stakeholders from the important work of shoring up aid to low-income students.

The paper concludes that by 2010 there may be an \$800 million hole in the country's student financial aid system. This \$800 million hole is a sort of ticking time bomb. The fuse has been lit, and will explode unless politicians and policymakers work actively to defuse it. To do this, governments must stop treating student aid as a cheap forum for buying middle-class votes and once again treat it as a way to help those without means access educational opportunity.

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INTRODUCTION

As post-secondary education comes increasingly to be seen as a “right” for the Canadian middle class, issues around tuition and student financial aid have become more and more important in social policy discussions, and importantly, with politicians.

Prior to 1996 – the year the leading edge of the “echo” generation turned 18 – one would have struggled to find meaningful post-secondary policy debates during either provincial or federal election campaigns, or indeed seen much in the way of policy positions taken in political party platforms and manifestoes.

There has been considerable change in the past decade. Now, Canadian political parties struggle to be taken seriously if they don’t have a post-secondary education platform. In the 2006 Federal Election, even though post-secondary education issues did not receive much coverage, all political parties bar the *Bloc Quebecois* (for obvious reasons) chose not only to present detailed proposals on post-secondary education, but also to bid against each other in terms of helping “the middle class” pay for post-secondary education.

In parallel with this heightened political interest, we have seen a vast explosion in research on, and knowledge, of student financial aid and access to post-secondary education. As late as the summer of 2002, no one could convincingly answer as simple a question as “*how much student financial aid is given out in Canada each year?*” for the simple reason that no one tracked this rather important statistic. Since then, however, there has been a significant increase in the number of important research papers published on the topic which have both broadened and deepened our understanding of the problem of access and the ability of student financial aid instruments to increase access to post-secondary education.

Unfortunately, the growing knowledge base about student financial aid and access issues has not found its way deep enough into the political debate. Indeed, paradoxically, it is precisely the rising political interest in post-secondary education that may be about to do serious damage to the Canadian post-secondary student financial aid system that until very recently was making great strides towards improving access to post-secondary education.

The purpose of this paper is not to point fingers at particular governments, political parties or politicians. In our view, the problem is broader than that. All Canadian political parties are to some degree complicit in the problems that are about to envelop the student aid system. This is not a Liberal, New Democrat or Conservative issue.

Neither is our purpose to be sensationalist. Even the most cursory analysis of our track record as researchers shows that we are not of the all-too-large crowd that perpetually screams “crisis”. Until very recently, we believed that Canada was largely on the right track with respect to access to post-secondary education. A confluence of factors, however, suggests to us that the system

which has been improving may now be headed for deep trouble, and that this trouble could mean the reversal of nearly a decade's progress on access to post-secondary education.

There are, in our view, four major factors that are contributing to the ticking time bomb on student financial aid. The first and most important is what we call "sleepwalking towards universality". For purely political reasons which we examine at length, governments – both provincial and federal - are adopting universal subsidy policies in place of ones that target high need and low income individuals. True, there is more money in the student aid system now than there used to be. It is, however, by no means clear that these new expenditures have expanded opportunity to low income students – in some ways, they may have actually contributed to a slight contraction.

The second is the rise in the underlying costs of student financial aid programs, due in no small part to recent increases in interest rates. This is a much bigger problem than most people realize. Nearly all of the Government of Canada's expanded spending on student financial aid over the past decade has come out of savings generated through lower student loan interest costs. As these costs rise, and they will with the trend in the prime lending rate, they will put pressure on other need-based programs at both the federal and provincial levels.

Compounding this is a third factor – the countdown to the end of the Canada Millennium Scholarship Foundation in 2010. Whatever one thinks of this sometimes controversial organization, its passing – which in practice is now only three years away – will also mean the disappearance of nearly \$350 million/year in need-based grants, which is roughly half the country's need-based grant money. The disappearance of this money will have a major effect on the country's need-based student financial aid system.

The fourth and final factor is less a threat in itself than a destabilizing environmental factor, and this is the possibility of a major realignment of fiscal federalism in the area of post-secondary education. For the first time in over a decade, the idea is being floated that the Government of Canada might abandon the student financial aid field to the provinces. Such a change need not necessarily be detrimental to students – though if the result was a round of federal-provincial navel gazing while the clock ticked on other policy issues, it certainly has the potential to be so.

It is our sincere hope that this paper will act as a wake-up call to Canadian politicians and policy makers. There has been too much progress made in student financial aid file over the past decade to simply walk away. There is still time for the country to alter course and take serious steps to save the country's student aid financial programs. But time is running short.

1. STUDENT FINANCIAL AID AND ACCESS TO EDUCATION IN CANADA – A BRIEF HISTORY.

Does student aid matter in terms of access to post-secondary education? The best evidence currently available provides us with the following answer.

At a jurisdictional level, costs (meaning tuition, either on its own or offset by available student aid) and access (whether measured by the number of students or the composition of the student body) seem to be largely unrelated to access. High tuition countries can have low or high enrolments, as can low tuition countries (Usher and Cervenak 2005). This makes a certain intuitive sense, since “accessibility” is a function of both supply and demand (Finnie 2004), and student costs are only half of that equation – less if one takes into account such factors such as living expenses. At least as important, if not more, are supply issues such as number of places, available professors, quality of secondary schools, the secondary school completion rate, etc. These factors create the “equilibrium conditions” in each jurisdiction.

But this does not mean that student aid cannot make a difference at the margin. Over the past thirty years, a number of American studies that look at “Student Price Response Co-efficients” (e.g. Jackson and Weatherby 1975, Leslie and Brinkman 1987, Heller 1997) have all found that as *net price*¹ rises, enrolment declines. The size of the measured effect varies with the study, and more recent studies tend to find much smaller effects, which either means the perceived returns to education are growing or that researchers are finding more sophisticated ways of controlling for various non-cost factors (Heller 1997). But, regardless of the size of the effect, the direction is the same. So, regardless of how high or low the equilibrium conditions are, changes in net price seem to affect that equilibrium to some degree.

But not all students seem to respond equally to changes in net price. In the most accurate series of studies conducted to date, St. John (1993, 1994), St. John and Starkey (1995) and St. John and Paulsen (2002) have shown that changes in net prices had considerably different effects on low-income students than on high-income ones when it came to year-on-year retention. In fact, all of these studies show that higher-income students were virtually price insensitive when it came to education, but that changes in net costs had a relatively important effect on the poor.

Why this should be so is a matter for some debate, as it flies in the face of human capital theory which does not predict any differences in reaction to changes in cost-benefits (which, effectively is what a change in net cost amounts to) based on a person’s socio-economic background. The main theory that has been advanced (Usher 2006) is that low-income students have expectations of success, knowledge of costs and benefits, and personal discount rates that are consistently and systematically different from higher-income students and that these, collectively, account for the differences in

¹ To understand this concept, it is helpful if we think of grants as simply “negative tuition”, which, when added to real tuition, adds up to a single “net” tuition, or “net price”.

reaction. For the moment, though the explanation of why low-income students react this way can be safely ignored; what matters is simply that changes in costs affect low-income students more than higher income students.

From these known facts, we can extrapolate two major policy conclusions.

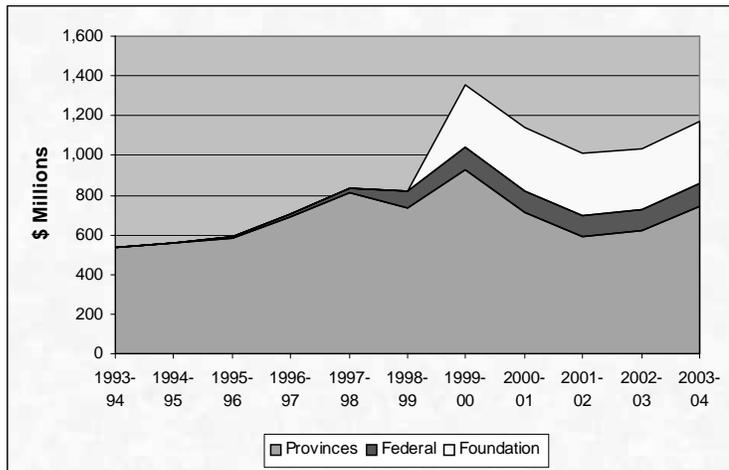
- 1) Regardless of what kind of student subsidies are offered to affect student demand, access will remain unaffected unless governments also make changes to affect the supply of spaces by increasing resources available to postsecondary institutions.
- 2) Reducing net costs for low-income students only is a more efficient policy to reduce financial barriers than reducing net costs for all students because students from wealthier families are relatively unaffected by reductions in price. Thus, a policy of targeted grants is far more efficient than a policy of subsidizing all students (through tuition fee reductions or universal tax credits, for instance).

None of this new, nor is it rocket science. And yet the obvious implications of these two conclusions have been more or less ignored within Canada from governments of all political stripes. New Democrats appear seduced by the urge to fiddle with tuition fees. Liberal and Conservatives have fallen victim to the tax credit trap.

Take for instance need-based grants and loan remission. These support measures, as has been noted elsewhere (Usher 2004a) are far from perfect as a means of delivering aid to low-income students since, for a variety of reasons, “need” is at best an imperfect proxy for “income.” They are, however, the best system available to us at the moment for getting aid to low-income students.

In 1993-94, the amount of grants available in the country was at a low point, due in major part to the elimination of grant programs in Ontario. From that point onwards, government student aid spending began to rise, first at the provincial level, and then at the federal level. In 1999-2000, grant and loan remission expenditures shot up for reasons both ephemeral (Ontario switched its accounting system in a manner that required them to pay out remission on more than one cohort in a single year – this accounts for the fall the following year) and long-term (the creation of the Canada Millennium Scholarship Foundation). Provincial grants then began to fall significantly before recovering slightly in 2003-03. These historical trends are shown below in Figure 1.

FIGURE 1 — TOTAL GRANTS AND REMISSION BY SOURCE, 1993-94 TO 2003-04

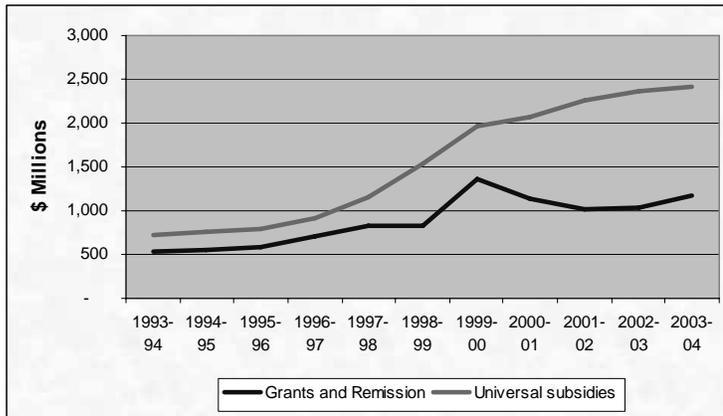


Source: provincial and federal student aid data collected by authors

Figure 1 shows the steady rise in federal and provincial expenditures on grants until 1999-2000, after which provincial grant spending sharply began to drop. If one excludes grants and bursaries from the Canada Millennium Scholarship Foundation (which, technically speaking consists simply of a stream of payments made from a one-off investment by the Chrétien government made eight years ago), Canada was spending less on need-based grants in 2003-04 than it was in 1999-2000. This is probably still true today; as increases in grant spending from some sources (Government of Canada, Government of Alberta and Government of Ontario) have likely been offset by reductions in spending in other sources (the Governments of British Columbia and Quebec).

Figure 2 shows this another way. Using 1993-94 as a baseline, we see that the rate of growth in grants outpaced the rate of growth in tuition at both the college and university level in the period to 2003-04, which is good news for those concerned with access to PSE for low income students. However, there are two caveats in this picture. First, population growth is not taken into account; given that enrolment is up almost 20 percent, the amount of grants *per student* has likely just barely kept pace with tuition. Second, once the Canada Millennium Scholarship Foundation is taken out of the equation – as it certainly will be in 2010 once the mandate and fund are exhausted – grants clearly have not kept pace with tuition even if one ignores population growth.

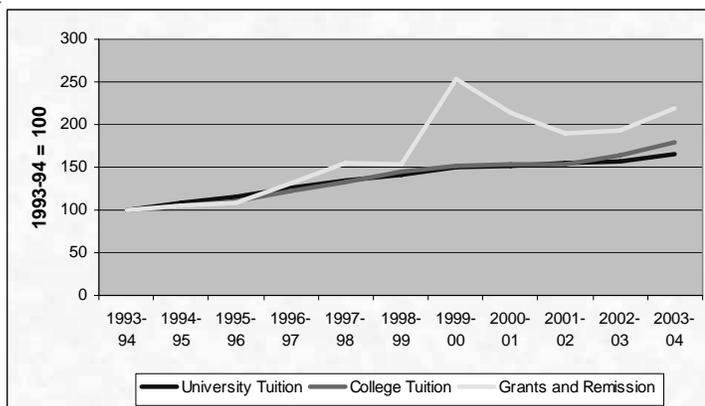
FIGURE 2 – GROWTH IN GRANT AND REMISSION SPENDING VS. TUITION GROWTH, 1993-94 TO 2003-04



Source: Provincial and federal student aid data collected by authors, Junor and Usher (2004), figure 4.11.1

Now let us examine universally available subsidies such as tax credits and Canada Education Savings Grants, which are not distributed on the basis of need. These, too have been growing over the past decade, albeit at a much faster rate than grants. Figure 3 shows that federal and provincial governments more than tripled their spending on universal assistance between 1993-94; grants and loan remission doubled in the same period, but if the soon-to-end Millennium Scholarships are left out of the equation, then grant and loan remission funding is up by only about 60 percent.

FIGURE 3 – GROWTH IN GRANT AND REMISSION SPENDING VS. GROWTH IN UNIVERSAL ASSISTANCE (I.E., TAX EXPENDITURES AND CESGS), 1993-94 TO 2003-04



Source: Provincial and federal student aid data collected by authors, Quarterly Statistical Summaries of the Canada Education Savings Grant Program and the 2004 Federal Tax Expenditure Report

To put it another way: there was considerably more spending on all forms of non-repayable assistance in 2003-04 than there was in 1993-94. In fact, combined spending on grants, loan remission and “universal” payments rose from \$1.26 billion to \$3.58 billion over the decade in question. However, at the same time, a smaller proportion of this money is being spent in a manner that has any hope of actually affecting access (i.e. based on need). In 2003-04 less than a third of these expenditures were need-based, and if the Foundation money were to be excluded from the calculation, the figure would fall to just 26 percent.

Even this understates the way that Canadian governments have been ploughing money into non-need-based aid. Many provinces have engaged in tuition fee freezes or even tuition fee reductions over the past five years or so (Swail and Heller 2004). Where institutions were not compensated for the loss of fee revenue (as was often the case in Quebec), there was obviously no extra investment in non-need-based forms of spending. In most provinces, however, institutions were at least partially compensated for the tuition freezes – and in these cases, the effect of the tuition freeze is exactly the same as the effect of a tax credit, distributing money to all students regardless of need.

2. THE FOUR THREATS

A) SLEEPWALKING TOWARDS UNIVERSALITY

In 1964 when the Government of Canada created the Canada Student Loans Program (through the 1964 Canada Student Loans Act) it was designed to expand access to post-secondary education institutions for all Canadians. To achieve this goal, the Government of Canada committed to provide student support solely on the basis of financial need. Now, some forty years later, Canadian governments have branched out and are supporting students (and families) through several other means – mostly through non-means tested or “universal” benefits.

This shift began in 1998 but became pronounced in 2000. Governments reduced or froze tuition fees; tax credits were created and then enhanced and savings programs established. Little by little, Canadian governments – both provincial and federal – fell in love with the notion of universal benefits. The reason for this shift has little to do with good public policy and more to do with cheap electoral politics. Politicians were often pandering either to the middle-class who preferred not to have to scrimp and save for education, or heeding the ill-conceived and transparently self-interested advice of student groups.

Canadian governments now spend more money on untargeted / universal benefits for students (and their families) than on targeted benefits for those in financial need, and there is little evidence that these trends will be reversed. The obsession with universal benefits means there is little, if any, money available for grants, which as we have seen are the one policy instrument known to work for low-income students. Though seemingly innocuous, these measures therefore represent a threat to access to post-secondary education in Canada.

The way in which “universal benefits” overtook targeted benefits is most clearly shown in the change in politics surrounding tuition fees. During the 1990s, when tuition nearly doubled in real terms, many people worried about escalating costs. Financial institutions wishing to sell parents educational savings products projected continuing tuition rises through to the end of next decade and produced six-figure estimates for the cost of tuition by 2010.

As it turned out, the fear-mongers were wrong. As soon as the chaos that characterized public finances in most provinces in the mid-1990s receded, governments began to look for new ways to spend money. In many cases, they chose to spend it on tuition reductions and freezes. As Table 1 shows, in mid-2006 tuition is frozen in five provinces, and increasing at less than 5 percent per year on three others.

TABLE 1: PROVINCIAL TUITION FEE POLICIES AS OF JUNE 2006

Provinces	Tuition Policy	Year Introduced
Newfoundland and Labrador	Roll-back / Frozen	1999 / 2001
Prince Edward Island	No stated policy	-
Nova Scotia	Regulated – 3 year funding agreement. No more than a 3.9% increase overall	2005
New Brunswick	No stated policy	-
Quebec	Frozen	1995
Ontario	Regulated – No more than an increase of 5% across the Board	2006
Manitoba	Roll-back / Frozen	2000 / 2001
Saskatchewan	Frozen	2005
Alberta	Frozen	2005
British Columbia	Regulated – Inflationary increases for most programs	2005

In a very short period of time around the turn of the decade, tuition fee increases went from being normal to being abnormal. This was not because of any evidence showing the benefits of freezing tuition; as we saw in the previous section, the evidence favouring tuition fee freezes over increases in need- or income-based assistance is non-existent. So what changed?

Give credit where credit is due. Student groups – primarily the Canadian Federation of Students – have done a fantastic job of portraying Canadian post-secondary challenges as being solely rooted in tuition – i.e. fees are too high. Former Newfoundland and Labrador Premier Brian Tobin, when asked about the province’s fee policy, commented that students made it impossible for him not to freeze tuition. In effect, student claims that high tuition fees were damaging access to education had resonated with some in society.²

Public opinion polls usually support the student position. Polls conducted for the Canadian Association of University Teachers (CAUT) (Decima 2003), the Canadian Federation of Students (CFS) and the Canada Millennium Scholarship Foundation (IPSOS 2003) often find a fairly common belief that tuition fees – especially at universities – are too high. Many of these kinds of surveys also ask individuals if they believe tuition should be reduced or frozen. Given the near-universality of post-secondary education in the

² One should also not discount the success of the Fédération étudiante universitaire du Québec in mobilizing continued public support for the tuition freeze in Quebec.

country, this is a bit like asking people if they would like a tax cut.³ Yet these simple and entirely predictable responses seem to have hit a nerve with politicians.

There is nothing wrong with keeping tuition low, *per se*. It is however an overestimation that all things being equal, students from lower-income backgrounds have an easier time affording their education when tuition is low than when it is high. But it needs to be recognized that a tuition freeze is an extremely wasteful and inefficient way of helping the needy; indeed, one could hardly imagine a *less* efficient way of providing aid to the needy. It has, for instance, been calculated (Usher 2004a) that for every dollar spent to freeze tuition at universities, less than 17 cents goes to students from the lowest income quartile; meanwhile, close to 35 cents goes to students from the highest income quartile.

The good news, therefore, is that as public finances improved, provincial governments re-engaged in post-secondary education. The bad news, however, is that, in response to student groups and badly-worded polling questions, provinces' investments often flow to middle and upper-income individuals through tuition fee freezes or reductions. This is perhaps excusable in those places – like Ontario – that have also been firmly committed to making significant investments in income- or need-based aid. In these cases, the spending on universal measures is at least offset by some intelligently targeted spending that will help those who need it most.

Much less forgivable are jurisdictions which have lavished money on universal measures without investing in need-based measures. Recent examples are Newfoundland and Labrador and now it seems the same fate awaits Nova Scotia⁴.

Least forgivable of all are those provinces, like Quebec, that have attempted to cut their targeted, efficient assistance programs in order to fund their untargeted, inefficient universal systems. The Government of Quebec's decision in 2004 to cut funding to the student financial aid system is the clearest example of how "universality" as a principle in student aid can be harmful to the low-income students. The Charest government decided to convert \$103 million in student need-based grants into loans, a measure that impacted the province's low-income post-secondary students, rather than actually address the issue of tuition fees.

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³ More interesting variations on this question ask people to select the best way to improve access to education, given the high cost of education. As the CAUT/Decima poll shows, when given options about how to remedy any damage caused by high tuition, Canadians are almost as likely to pick "grants for the poor" as they are to pick "reduce tuition fees".

⁴ The recent outcome of the provincial election holds little hope for those in favour of targeted aid. Both the victorious Progressive Conservative Party and the Official Opposition New Democrats have talked of reducing tuition fees and providing a series of post-secondary education tax credits. To be fair, the New Democrats have talked of restoring the provincial loan remission program, however, that seems unlikely since the current government both eliminated and then restored – notionally – the program.

Former Quebec Education Minister (and former Rector of the Université de Sherbrooke) Pierre Reid sums up political (and often public) opinion on tuition and student aid best when discussing the government cuts: “We made a societal choice, a political choice too, which is to have tuition fees frozen,” Reid told *La Presse*. “Of course, passing the bill along to others would have meant increasing tuition fees and that is absolutely out of the question.”

This decision was more about optics than it was about sound policy. The Quebec government wanted to increase funding to the universities, but didn’t have enough in the treasury, so they simply reached into students’ pockets to find additional monies. Instead of taking a larger share from those students who could most easily afford it, the Charest government decided to pile debts on those who can least afford it.

The Government of Quebec simply didn’t have the courage to touch the sacred cow of universal education subsidies, and was prepared even to sacrifice the far more important and efficient student aid programs to keep it going. If other Canadian politicians follow this lead over the coming years as the student financial aid time-bomb ticks away, Canada’s student financial aid system will be in a tremendous amount of trouble.

While tuition may be the most visible example of tension between universal and targeted benefits, it is not the example where the greatest amount of money at stake. That distinction belongs to the increasingly elaborate and well-funded system of education tax credits.

Education-related tax benefits have been part of the Canadian post-secondary education landscape for over forty years. The use of tax incentives for students started under Diefenbaker government, who saw tax credits for education as a more province-friendly way to help students than creating a loans and grants program. Little of note happened to educational tax credits for the next thirty-five years. The expansion of tax credits for post-secondary education came between the years of 1996-2000 under the Chrétien government.

The late 1990s were not simply a period in which post-secondary education came to occupy a larger place on the public stage, but also a very difficult era in the federal-provincial (more specifically, Ottawa-Quebec) relations. Given this, the federal Department of Finance had a preference for policies that dealt directly with taxpayers rather than policies which involved collaboration with provinces. Thus it was that tax credits, rather than direct program spending on need-based aid, became the Government of Canada’s primary tool in supporting individuals in education. It was a brilliant political strategy not simply because it gave a direct connection between Ottawa and individual taxpayers, but because the investment could be portrayed either as an “investment” or as a “tax cut” depending on circumstance. The policy end of it, however, was dubious at best.

The Government of Quebec simply didn’t have the courage to touch the sacred cow of universal education subsidies

Provinces for the most part have followed the lead of the Government of Canada in expanding tax credits. Indeed, in some cases (Ontario and Alberta) provincial tax credits are worth more than federal credits because their value has been indexed to inflation. Part of the reason for provincial interest in this policy tool is its alleged popularity.⁵ As a result, although the federal government has taken the lead on these issues, the provinces have for the most part been complicit in taking the country down this path.

Tax credits in Canada have the same distributional effects as tuition fee freezes or cuts – they give money to people already in the system, without reference to need. They are nice bonuses come tax time for those who receive them, but the majority of the tax credit benefits flow to families of students who would have attended post-secondary education anyway – and, by and large, these people tend to come from wealthier backgrounds to begin with. In addition to suffering all the same problems of inefficiency as tuition fee freezes, tax credits have one additional drawback. While tuition fee freezes have the benefit of helping students in September at the beginning of term, when money is needed most, tax credits are only available the following April.

As noted in section 1 of this paper, the increased use of tax credits – and, to a lesser extent the use of savings programs such as the Canada Education Savings Grants – has had major fiscal implications in Canada. Governments now spend a staggering amount – over \$2.5 billion dollars – supporting students through the tax system and savings instruments; the Government of Canada now spends more through the tax system than it does through the Canada Student Loans Program for all loans and grants.

As with tuition fee freezes, there is nothing intrinsically wrong with tax credits – they provide help to low-income students, albeit in a terribly inefficient fashion. If increases in tax credits are offset with increases in student aid – as was the case in the 1998 federal budget – a rough case can at least be made for them. They are indefensible, however, when governments attempt to use them as a *substitute* for student aid, which is what many are now intent on doing⁶.

A final area where need seems to be losing out is – paradoxically enough – the need-based student loan system itself.

The Canadian student loan system, with its opaque and complex need assessment formula, is a source of frustration for frustrated parents, students and politicians. Many of these individuals, exasperated with not

⁵ The expansion of educational tax credits is believed to be popular amongst the middle-class, especially for those whose family incomes were too low to make self-funding of a PSE program realistic but whose incomes were too high to qualify for student aid (or at least, they were prior to the major expansions of student aid eligibility in 2004 and 2006). As tax credits got money into parents (and student) hands without applications or income tests, they could satisfy this (now-vanished) segment of the electorate.

⁶ The exact impact of the tax credits is also largely unknown since it is unclear whether the credits have led to an increase in parental education support or have simply made middle-income families lives easier over the short run.

receiving government student aid, blame the system and level charges that it is unfairly biased against them. One of the primary flash points for these individuals is the financial contributions expected from parents and guardians.

It is generally acknowledged that families should contribute to a student's education. There is, however, a legitimate debate about how much they should contribute and for how long. These debates bring into question the when a student is truly "independent" of their parents and how much disposable income parents should be expected to channel to education.

Prior to 2004, policy analysts were making the case (Hemingway 2003, Junor and Usher 2004a) that expected parental contributions students were overly onerous, particularly for families with incomes just above the national median. Since then, two of the past three federal budgets have seen the Government of Canada (in partnership with most provinces) make significant changes to the expected parental contribution tables by extending eligibility for what was intended to be an additional 70,000 students. These changes, arguably long overdue, were intended to both reduce the expected parental contributions for low-income families and increase the number of eligible middle-income Canadians.

However, it now appears as if legislators may have overshot their mark. The new loan limits (introduced in Budget 2004) mean, that under certain conditions, students whose parents have incomes up to \$160,000 may be eligible for assistance. This means that there are now very few students who do *not* qualify for student loans. The estimate of 70,000 extra clients may therefore turn out to be a significant under-estimate.

If student loans were like ordinary loans, carrying no subsidy, the expansion of aid to students from higher and higher income backgrounds would be of no policy consequence. However, student loans actually carry quite a large subsidy component; interest on the loans while in school is negative in real terms (i.e. zero nominal interest) and borrowers in repayment are eligible for generous interest relief benefits if they run into repayment difficulties. Estimates vary, but a dollar in student loans is generally reckoned to cost a government between 25 and 33 cents. By allowing more and wealthier students into the student loan system, governments are leaving themselves open to higher loan program costs down the road.

Nor do politicians appear likely to be satisfied by the changes made to the expected parental contribution amounts. Some politicians want to expand eligibility to student aid to all students. In 2004, New Brunswick Opposition House Leader Kelly Lamrock went so far as to introduce legislation abolishing expected parental contributions for student loans in the New Brunswick legislature for that year (the bill failed on third reading). Similarly, in 2003, the Saskatchewan Liberal Party proposed making all students independent of their families after one year of post-secondary education – which would in effect abolish parental contribution for roughly 80 percent of all students.

By allowing more and wealthier students into the student loan system, governments are leaving themselves open to higher loan program costs down the road

The student loan system was never designed to provide universal access for all students to loans and grants. A huge influx of new borrowers would place undue stress on the system and cause a fundamental shift in the way aid is provided in the country. It would, in effect, make a truly need-based system almost universal.

Fiscally, such a move would be a challenge. As in-school interest subsidies would be extended to all, the increased cost to the system would almost certainly be unsustainable. It is surely worthy of note that internationally, there is no student loan system that is both universal and carries a major subsidy component. In the long run, it is absolutely inevitable that an increase in loan eligibility will lead to a decline in the value of the subsidy attached to the loan. It would simply be far too expensive to subsidize all borrowers.

Such a change in loan subsidy may or may not be a good thing; however, it is certainly is not what the proponents of greater universality in student loans have in mind. It is, however, another example of the hidden costs of our current policy of sleepwalking towards universality.

None of our governments set out on a conscious or malicious assault of need-based student aid. What we have had is a failure to prioritize, a failure to focus on outcomes and objectives. Governments seem to prefer the easy route of spreading new money thinly among all students rather than concentrating it where it matters. The impact of this failure might not seem important in the context of any single tax credit or tuition freeze; collectively, though, these decisions now place duress on the student aid system. The sheer cost of providing these universal benefits now approaches \$4 billion a year. This is money that primarily goes to help students at the wealthier end of the spectrum.

In most of the country, the large decline in the percentage share of government student support has not yet begun starving true need-based aid programs of money. Only in Quebec has a government been blatant enough to try stealing from the poor to pay the rich. Increasingly, though, governments seem to think – wrongly – that handing out tuition freezes and tax credits is the *only* thing they need to do to guarantee access to education. The real threat is that, in the face of cost increases in the system as a whole, politicians follow the Quebec example and try cutting need-based benefits in order to maintain universal benefits. From an access point of view, this would be a disaster.

B) THE RISE IN UNDERLYING PROGRAM COSTS

It is a little known fact that the Canada Student Loans Program (CSLP) has not increased its annual spending on student financial aid at all over the past eight years. In 2004-5, its total program spending stood a shade over \$666 million, the same as it was in real dollars in 1996-97

On the face of it, this seems implausible. After all, ten years ago, Interest Relief (IR) was much less generous and neither Canada Study Grants nor Debt Reduction in Repayment (DRR) existed. Given that the system has become so much more generous, how is it possible that overall spending on student assistance has not increased?

The answer lies in the way the underlying financial structure of the CSLP is geared to interest and how much the program has benefited from lower interest rates since 2000. Indeed, three of the main expenditure line items in the CSLP are interest-related, including:

Class “A” Interest Costs – While students remain in full-time studies, the Government of Canada pays all nominal interest on behalf of the student. The cost of doing this is currently about \$175 million per year.

Loan defaults – We do not know the direct cost, but we do know that the Government of Canada reserves a little more than \$200 million/year to pay for future “bad debts”, which gives us at least an indication of the scale of this problem.

Interest Relief – Students who run into repayment difficulties due to low or unsteady income after the end of their period of studies are eligible to have payments temporarily suspended, during which time the Government will pay the interest costs of maintaining the loans. The cost of this program element is currently \$65 million per year.

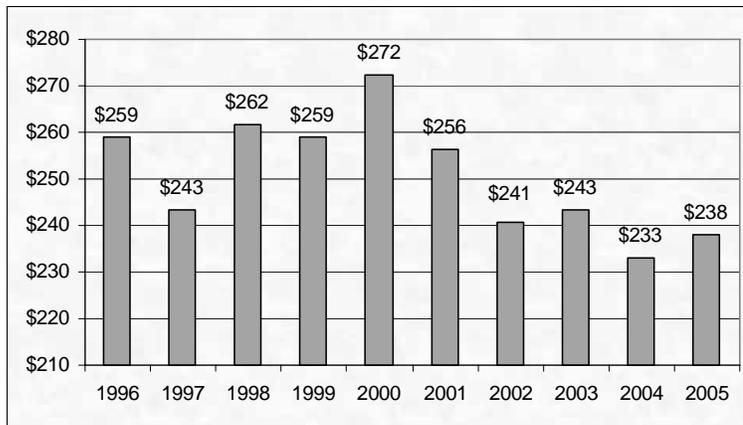
Lower interest rates have significantly benefited the CSLP in each of these three areas. For Class “A” interest, the benefit is direct – lower interest costs mean lower interest payments on the roughly \$4 billion in outstanding loans held by students still in school at any given time. For loan defaults, the benefits are a bit more indirect – fewer students end up in repayment difficulties in a low-interest environment than in a high-interest environment both because the cost of the loan is lower and because employment opportunities for young graduates tend to improve as interest rates fall. Finally, the benefits to the IR program are both indirect (lower interest rates mean fewer students in difficulty) and direct (the cost of providing the aid itself is cheaper).

Provinces, too, have benefited from lower interest rates. In part, this is due to lower interest rates; in part, it is because they are lending considerably less money than before to students. As Junor and Usher (2004) noted, aggregate provincial lending dropped by 45% between 1997-98 and 2002-03 due to falling need, more stringent eligibility criteria and aggressive designation policies designed to weed out some dodgier private vocational institutions.

Lower interest rates have obviously benefited students as well. Take a student with a \$20,000 debt paying the CSLP-standard loan repayment rate of prime

plus 2.5 percent. Figure 4 shows what such a student has paid over the past ten years, given the prevailing prime rate of interest in July of each year. Lower interest rates after the turn of the decade have clearly been a major boon to borrowers in repayment, as their loan payment fell by \$39/month, or roughly \$470/year, between 2000 and 2004.

FIGURE 4 – MONTHLY PAYMENTS ON A \$20,000 STUDENT DEBT AT PREVAILING INTEREST RATES



Source: Bank of Canada, author's calculations

But now, as we know, interest rates are heading up. Since the end of the dotcom boom, the United States Federal Reserve has maintained a policy of easy money which has left global capital markets awash in money. But this excess liquidity is slowly being mopped up and the era of easy money seems now to be truly over. At the moment, interest rates are rising slowly, but there is a risk that they might substantially increase in response to a general currency crisis in the US, or the return of the *Parti Quebecois* to power in Quebec. What would such an event mean? What would happen, if, say, prime were to return to 8 or 9 per cent?

For students, the risks are clear: an individual \$20,000 in debt, facing an increase of 100 basis points in interest rates means an increase of \$129 in annual interest charges. Even if we account for the partial offset of this cost increase by the Student Loan Interest Tax Credit (a government line item outside the student loan program, but one whose cost will also increase in line with inflation), this increase of \$109 is, for an average university graduate, substantial. For a typical graduate it represents a decrease in after-tax income of .3 percent. Put another way, it is equivalent to a total tax increase of roughly 1.2 percent.

Thus, when the prime increases 225 basis points, as it did between June 2004 and June 2006, the graduates' payments increase by \$250, which is roughly equal to a GST increase of 1.5 percentage points (assuming that half of the graduate's income goes to non-GST items such as groceries and rent). Were it to rise another 250 basis points to 8.5 percent (as it well might given

For students, the risks are clear: an individual \$20,000 in debt, facing an increase of 100 basis points in interest rates means an increase of \$129 in annual interest charges

the apparent end of cheap money around the world), we would see a significant increase in graduate hardship.

For governments, the cost is also substantial. For every 100 basis point increase in the Government's cost of borrowing, CSLP must pay an extra \$40 million in Class "A" interest costs. An increase in the base rate from 5.5 percent (where it was in the spring of 2006) to 8 percent (where it may well be within 24-30 months) represents a cost increase of \$100 million. Changes in costs for interest relief and loan defaults are harder to calculate with any certainty because the change depends in large part on how the labour market reacts to a change in interest rates. However, evidence from the mid-1990s (when interest rates and youth unemployment were significantly higher than they are today) suggests that the cost could range from \$50 million to \$200 million.

The potential costs from higher interest rates at the federal level are therefore in the range of \$150 million to \$300 million. This is not pocket change. Even at the lower end of the range, this cost increase is larger than the entire budget for all Canada Study Grants combined. At the top end, it rivals the annual budget of the Canada Millennium Scholarship program.

Provincial programs are not as exposed as federal programs for the simple reason that they lend considerably less money. Given current overall ratios of loan expenditures, one could reasonably expect that the provinces will be footing a bill roughly half the size of the federal bill – between \$75 and \$150 million in total. National increases in loan program expenditure could therefore range from \$225 million to \$450 million.

It should be noted, however, that these estimates are based on data from earlier years, when student loans had eligibility criteria that were considerably stricter than they are today. As we noted in the previous section, roughly 70,000 new students have been made eligible for student aid due to changes announced in the federal budgets of 2004 and 2006, and there are pressures at both the federal and provincial levels to continue expanding eligibility.

Assuming, conservatively, that student client numbers rise by 20 percent in the CSL zone as a result of these changes, then our previous cost estimates need to be increased again by 20 percent at the federal level and 15 percent at the provincial level (assuming that Quebec does not similarly increase its eligibility criteria). This would give us a final figure for potential medium-term increases in student costs of between \$266 and \$621 million dollars, not counting any increases in the costs to provincial remission programs.

The most recent data on student loan program expenditures put the national cost of these programs at roughly \$900 million. The interest rate changes and expanded eligibility therefore represent anywhere between an increase between 30 and 70 percent of current expenditures.

Because federal and provincial student loan programs are written into statute, governments will have no choice but to pay these higher costs. But it seems

The potential costs from higher interest rates at the federal level are therefore in the range of \$150 million to \$300 million

hard to believe that these increases will be sustainable. Something, somewhere else in the system, will have to give.

C) THE END OF THE CANADA MILLENNIUM SCHOLARSHIP FOUNDATION

Although the Canada Millennium Scholarship Foundation plays a major role in the provision of student financial assistance in Canada, it has always been an organization living with a death sentence, since instead of receiving an annual appropriation from Parliament, it exists off a \$2.5 billion endowment (plus interest) which, by law, must be entirely spent by the end of 2009.

If one looks at the entire student financial assistance picture – that is, all aid given to individuals for the purpose of post-secondary education then the Foundation is a relatively small player. The story is somewhat different if the examination includes only grant provision in the country. Currently, the Foundation provides over \$350 million to over 100,000 students annually, making it responsible in other words for a little under 30 percent of all grants awarded in Canada. It is the country's only system of national needs-based grants in the country (the Canada Study Grants administered through the Canada Student Loans Program (CSLP) are not national since there are no grants awarded in non-CSLP provinces (i.e. Quebec, Northwest Territories and Nunavut)

The end of the Foundation will have significant consequences in many provinces and territories. As of 2003-04, Foundation aid was responsible for 50 percent of all non-repayable need-based aid in Manitoba, 48 percent in Nova Scotia, 44 percent in Newfoundland and Prince Edward Island, and 39 percent in Ontario. In some jurisdictions, this proportion will have increased with the introduction of the Foundation's new low-income bursary in 2005.

Only Alberta, where Foundation aid represented just 18 percent of all grant aid, will be able to cope efficiently with the loss of Foundation money. Other jurisdictions simply do not have the resources to provide additional resources for an existing program. Even if they did, replacing an expiring federal program with a provincial one is a no-win scenario politically for provincial governments. If they replace the federal funds, no one will notice and the government will get no credit; if they do not replace it they will face the political consequences of an unhappy student body, many of whom will see a sharp increase in their debts upon graduation.

This \$350-million problem is almost entirely Ottawa's responsibility. It was the federal Parliament that wrote the law giving the Foundation a fixed life expectancy, and it is to the federal Parliament that provincial governments and stakeholders will be looking for solutions.

To be clear, the question at hand is not whether the Canada Millennium Scholarship Foundation should be given a renewed mandate past 2009. The Foundation, to be crude, is simply a delivery mechanism for federal funds; other mechanisms could be imagined, each of which would have a set of pros

This \$350-million problem is almost entirely Ottawa's responsibility

and cons. The more important question is whether or not the federal government will be able to come up with \$350 million in new need- and income-based aid annually. And, if not, will provinces be inclined to compensate? If the answer to both these questions is no, then Canada's stock of need-based aid will decline still further.

Despite the fact that the "Foundation Question" is now one of the most frequently talked-about in student aid circles, governments are displaying a disquieting lack of urgency on this issue. Three years may seem like an eternity to politicians, especially those trapped in minority governments. The reality, however, is that planning for the post-2009 reality of student aid in Canada needs to start now. The first jurisdiction to place a zero in the Foundation bursary column for the 2009-10 fiscal year will undoubtedly wish the issue had been raised and resolved sooner.

D) THE END OF THE FEDERAL ROLE IN STUDENT LOANS?

Post-1997, successive Liberal governments have been interested in extending their presence in student financial assistance – though the extension of interest relief programs in 1997 (and again in 1998), the creation of debt relief in repayment program in 1998, the creation of new Canada Study Grants in 1998, 2000 and 2004, etc. By and large, the initiative for re-shaping the Canadian student aid system over the past decade has laid with Ottawa, not with the provinces.

This has not always been the case. The Canada Student Loans Program changed very little between 1964 and 1994; certainly there was none of the annual tinkering and tweaking which has now become the norm. In the early 1990s, under both Liberal and Conservative governments, student aid was considered peripheral enough that it could safely be offered to the provinces during a period when both fiscal and constitutional concerns were forcing the Government of Canada to re-think its involvement in many areas of governance. The fiasco of the 1994 Green Paper⁷ further convinced many in Ottawa that the student aid file was a toxic one, and should be abandoned at the earliest opportunity.

The January 2006 federal elections brought a new government to power in Ottawa, one which has a view of confederation in which the roles of each level of government are more tightly circumscribed. It has already signalled, in its document *Restoring Fiscal Balance in Canada*, that while it sees post-secondary education and training as vital to the nation, it is interested in "determining the most appropriate arrangement for long-term funding commitments for post-secondary education and training". The new Prime Minister further charged the Minister of Human Resources and Social Development (HRSD) with

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⁷ In the fall of 1994, then federal minister Lloyd Axworthy (now President of the University of Winnipeg) released a green paper: *Improving Social Security in Canada*. The paper dealt with a range of social support measures, including post-secondary education. The green paper created intense discussion around the country since, among other things, it proposed to eliminate postsecondary education transfers over a four year period and called for introduction of income-contingent loans.

consulting with the provinces and coming up with a new, firmer set of roles and responsibilities by fall 2006.

While the language is somewhat ambiguous, certain inferences can nevertheless be drawn from these statements. There are, in practice, only two ways in which the Government of Canada formally interacts with the post-secondary sector in a manner that creates overlap with provincial governments. The first is in research policy. The second is in student aid policy. The Government of Canada has been reasonably clear that it sees no need for re-balancing on the former. That means, implicitly, that any rebalancing – if it occurs – is going to happen in the latter area. And, indeed, it is an open secret in student aid circles that senior officials at HRSD have been floating “trial balloons” to provinces on precisely this point, asking them their thoughts on whether or not the Government of Canada should hand over student assistance entirely to the provinces.

How such a transfer of responsibilities might occur is difficult to tell. There would be serious “legacy issues” in that even if responsibility for loans was handed over to the provinces, the Government of Canada would still be responsible for something like \$10 billion in outstanding federal loans.

The transfer of assistance responsibilities does not necessarily have to be a total one; the Government position paper (Budget backgrounder) calls for clearer roles and responsibilities, not simply “downloading”. This could mean that the provinces take full responsibility for tuition fee assistance and the Government of Canada takes responsibility for assisting with living costs (an idea floated by Bob Rae last year). There would also need to be further discussion when it comes to Aboriginal student support. Or, given the Government of Canada’s role in research and innovation, one could imagine transferring all student aid responsibilities for college and undergraduate students to provinces, while maintaining a role for graduate and doctoral students.

For argument’s sake, however, let us assume for the moment that what is on the table is a complete transfer of responsibilities in student aid. Is this a good idea? What would the effects be? Most importantly, would students be better off?

The status quo in student aid is not especially satisfactory. No one in their right mind would deliberately design the student aid system Canada has today. The system is a hodgepodge of federal and provincial programs that fit together in a manner that is confusing to experts, let alone to students. Students are subject to a great deal of unnecessary complication and hassle by having to take out and maintain two loans instead of one. Provincial officials routinely fight with the federal government over program implementation, and complain – often with justification – about the Government of Canada’s impossible demands for program tweaks and poor overall grasp of program administration. And the Government of Canada’s recent moves to expand eligibility and loan limits on Canada Student Loans have forced provinces to absorb much higher costs in their own programs.

Student financial aid in Canada is a hodgepodge of federal and provincial programs that fit together in a manner that is confusing to experts, let alone to students

This list of complaints with the present system is substantial, but not overwhelming. Troubled though it is, the present system works. Nearly all students get the money they need in a timely fashion. Much of the inter-governmental conflict is the simple grinding of gears, explainable by the fact that the federal student aid program is top-heavy with policy types and light on operational staff, while the reverse is true in the provincial systems. In short, though there are plenty of reasons why one might want to re-design the system. There is, however, no urgent crisis in the system that requires immediate action, either.

The principal benefit of the Government of Canada handing student aid over to the provinces would be that students would only have to deal with having a single loan, which in itself would be a significant benefit to borrowers. Whether there would be other financial benefits would depend on the arrangements put in place at the time of the transfer of responsibilities. Presumably, existing CSLP funding could be rolled into a new federal PSE transfer and each province would decide for itself how best to spend the money. Whether students would be better off would therefore depend partly on how the CSLP money was divided between provinces and how provinces subsequently chose to use the money.

There would, however, be two significant areas of concern if the Government of Canada were to leave the field. The first concerns student mobility. Left to themselves, provinces would be sorely tempted to introduce mobility barriers on student assistance⁸. As recently as 2000, students from the three westernmost provinces could only take their provincial assistance packages outside their home province under specific circumstances; an even harsher policy endured until 2002 in Quebec. Any hand-over of federal responsibilities which did not protect Canadians' mobility rights would have to be counted a failure.

A second area of concern if the Government of Canada were to leave the student aid field is the potential for greater inequality of treatment between students in different provinces. Although the *composition* of students' aid packages currently varies considerably between those provinces with generous grants programs and those without, the total amount of the package is reasonably constant thanks to the more or less common usage of the CSLP rules on need assessment. Again, a transfer of responsibilities that failed to guarantee the current level of consistency of treatment would probably be counted a failure.

The possible withdrawal of the federal government from the field of student financial assistance should not, properly speaking, be considered as part of the "time bomb", though, as noted above, there could be some negative

⁸ The Government of Saskatchewan did not make its aid program fully portable until the advent of the Canada Millennium Scholarship Foundation freed up resources. The Government of Quebec still has restrictions on mobility. For example, a student studying medicine outside the province can not take their government student aid with them.

policy implications if the issues of mobility and equality are ignored. Its effects on students are not necessarily negative and may well in fact be positive. The danger resides in the political side-effects of any withdrawal at a time when the system is already under serious stress. It will, in short, be a distraction.

It would be hard to underestimate how much of a distraction would occur. Student groups in particular can be expected to portray a re-arrangement of governmental responsibilities as being a threat to Canadian civilization. As well, it is because the Government of Canada's recent history of student aid activism has given it the sheen of the "good guy" up against the provincial "bad guy". In part, it reflects the sophomoric constitutional understanding of many young Anglophone Canadians, wherein it is unthinkable that "important" policy questions (i.e. post-secondary education) not be dealt with by the most "important" level of government (i.e. Ottawa). Finally, this is because the head offices of the two main national student groups – the Canadian Alliance of Student Associations (CASA) and the Canadian Federation of Students (CFS) would be left with precious little to do if student aid policy were decisively dispersed to the ten provincial capitals.

It should be stressed that the mere fact that there will be organized opposition to jurisdictional re-balancing of responsibilities is not a valid argument against it. Fundamentally, provided that aid is being distributed in sufficient amounts to the right students, it should be completely irrelevant which level of government is doing the distribution. Unfortunately, our country has a history of letting juicy quasi-constitutional issues take precedence over the more important issue of creating good, sound social policy. We currently face a serious looming problem in need-based student aid, and a spat over jurisdiction should not distract us from solving it.

It should be stressed that the mere fact that there will be organized opposition to jurisdictional re-balancing of responsibilities is not a valid argument against it

3. STUDENT AID IN 2010 – THE \$800 MILLION HOLE IN STUDENT AID

The gravity of the situation facing student aid in Canada for the 2009-10 loan year is considerable. It stems from a convergence of factors.

We fully expect that governments and politicians will continue down the path of least resistance with respect to universal benefits. In the 2006 federal budget, the Government of Canada introduced yet another tax credit into the Canadian system without so much as a thought as to its effectiveness as a policy measure. All parties in the recent Nova Scotia election made extravagant promises with respect to universal benefits; only one (the NDP) even made a nod in the direction of targeted benefits. Until a recession begins to impede governments' ability to spend, we can expect more and more money to be spent on ineffective student aid measures, because politicians seem to believe that these measures bring popularity and votes, if not actual results.

Meanwhile, costs will be rising in need-based aid. Assuming a medium-case scenario on the costs of increasing interest rates and wider loan eligibility, the Government of Canada will be facing a cost increase of about \$300 million in its student loan budget over the present day, and the provincial governments will collectively be facing a bill of \$144 million for the same.

Because most of these costs are statutory, governments cannot evade them. It therefore seems likely that they will try to reduce other costs within the same budget envelope. There is a significant likelihood that politicians' first instinct will be to cut grant programs to make up the difference, as happened in British Columbia in 2004 and Quebec in 2005.

Meanwhile, the Canada Millennium Scholarship Foundation's endowment will have run out, thus reducing the country's supply of need-based grants by \$350 million, or 30 percent. Thus, at the same time that provincial grants programs will be under indirect pressure from higher interest rates and lower eligibility thresholds, the Government of Canada's major contribution to grants will suddenly disappear.

All told, by 2010 there may be an \$800 million hole in the country's student financial aid system. This cost is not inevitable, nor need catastrophe strike student aid if sufficient preparations are made in advance. In this respect, it is vital for the country not to get caught up in a largely symbolic argument about which level of government delivers student aid. But this \$800 million hole is a sort of ticking time bomb. The fuse has been lit, and it will explode unless politicians and policymakers work actively to defuse it.

This \$800 million hole in student financial aid is not inevitable, nor need catastrophe strike student aid if sufficient preparations are made in advance

4. CONCLUSION

The consequences of not dealing with the student aid time-bomb are significant. While some of the \$800 million cost increase will no doubt be made up by provinces, there is strong reason to believe that grants programs in particular – that is, the very programs that are known to provide the most to help the disadvantaged – will bear the brunt of any cost-cutting that is necessary to make up the gap. If so, all the gains made by students via improved student assistance over the past ten years would disappear at a stroke.

Our primary concern is that the country's politicians and policymakers will fail to react to this crisis. Partially, this is because we believe that the political symbolism of a re-alignment of federal and provincial responsibilities will distract the major stakeholders from the real issue; namely, the looming student aid funding gap.

More significantly, our fear is that many politicians will fail to react under the mistaken belief that they have “fixed” the problem of access via tuition freezes/reductions, tax credits and savings incentives. They would of course have a right to feel this way: Tory, Liberal, New Democrat and Pequiste governments alike have indeed pumped a lot of money into these programs. Taking into account tax breaks, savings programs and the cost of funded tuition freezes across the country, our governments are collectively pumping nearly \$4 billion a year into these various types of “universal” subsidies.

The problem is that none of this \$4 billion is going into programs that have any known impact on access to post-secondary education and therefore, in truth, nothing has been “fixed”. Tuition freezes and tax credits make life easier for the middle class; by reducing the net cost of a service fee, they act primarily as tax cuts which can then fuel consumption in other areas. In short, they may help students and their parents increase their standards of living, but they do nothing to increase the number of students receiving post-secondary education.

The one thing that we know for sure that has an impact on access to student assistance is a program of grants, especially those targeted at low-income students. And yet it is precisely this instrument that has been most neglected by provincial politicians, and precisely this instrument that is about to receive a \$350 million cut (effectively, through the demise of the Canada Millennium Scholarship Foundation) from the federal government.

The one thing that we know for sure that has an impact on access to student assistance is a program of grants, especially those targeted at low-income students

Cutting grants, an instrument to help the poorest in society, to pay for general tuition fee freezes and tax breaks for all students is Robin Hood in reverse. Yet the ticking time-bomb in student aid, the \$800 million hole in the student aid budget looming in our collective windscreens, is likely to push Canada further down this path.

This path is wrong. It sacrifices both equity and efficiency for a crass political game of vote-buying. Student aid is meant to help those without means access educational opportunity. The danger now is that Canadian politicians will follow the lead of their American counterparts and turn student aid into a program whose primary objective is to help the middle-class afford a second vacation each year. If this happens, those who will suffer most are those who are already least served.

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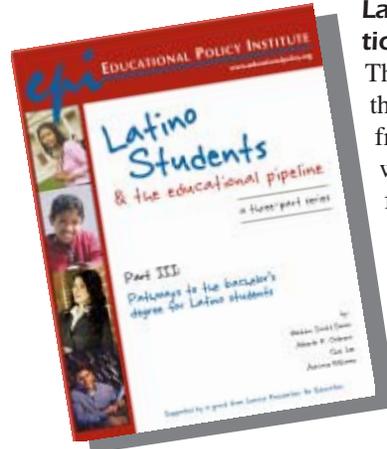


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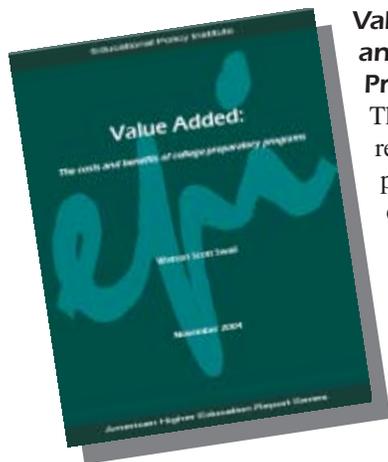
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This report considers issues related to the complex proposition that the cost of early intervention program delivery is directly and positively tied to the ability of programs to successfully enable students to get into college.



The Affordability of University Education

This report looks at the relative affordability of public university education in the United States and Canada, comparing all 50 US states and 10 Canadian provinces on postsecondary access, student financial aid, tuition and fee charges, and overall net cost of attendance for the years 1999-01.



Changes in Tuition Policies: Natural Policy Experiments in Five Countries

This international study reviews tuition and fee policy changes and strategies in 5 countries and 9 jurisdictions. Funded by the Canada Millennium Scholarship Foundation, this review provides insight into the impact of tuition policies on enrolment.



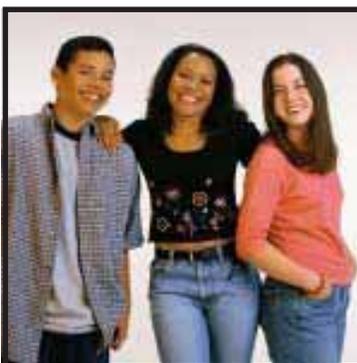
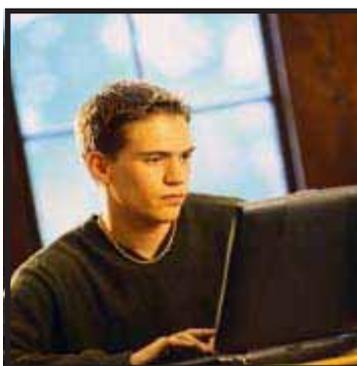
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