

## Discussion Paper

# Dedicated Transfer Payment for Post-Secondary Education

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## Federal Transfers for Post-Secondary Education

In the 2006 federal election, the federal Conservatives committed to a dedicated transfer payment for post-secondary education. This concept has been gathering momentum for the better part of the past decade, ever since the creation of the Canada Health and Social Transfer in 1996. The following is a blueprint for how increased funding through a separate transfer payment for post-secondary education is a necessary step towards improving the accessibility and quality of Canadian universities and colleges.

### History of Transfer Payments

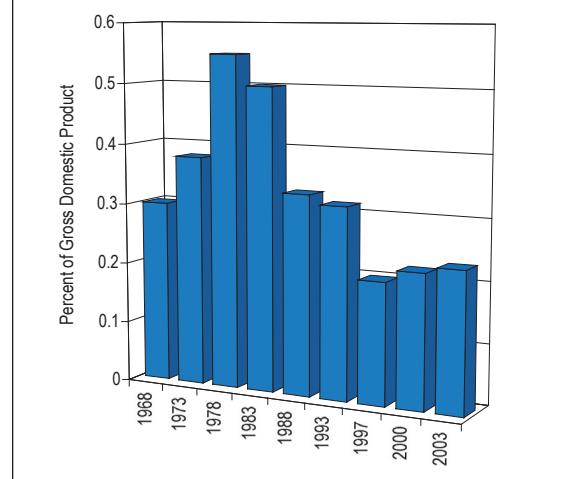
In federal budgets since 1995, the Government of Canada has implemented several initiatives that can be considered “post-secondary education” spending. However, these programs have been confined almost exclusively to commercial research and foregone tax revenue (taxes avoided under RESPs and tax credits). To the detriment of access to post-secondary education, the federal government has quietly retreated from its historical role as a key figure in post-secondary education financing.

In 1994, federal investments in post-secondary education were deliberately shifted away from core transfers to the provinces. Over the past ten years, the federal government has more than tripled direct-to-student and direct-to-campus spending, while transfers to the provinces for post-secondary education have remained stagnant.

Direct spending by the federal government on post-secondary education consists of new research projects such as the Canada Foundation for Innovation and the Canada Research Chairs. In addition to university research funding, direct federal spending also includes significant, if misguided, spending on programs that have made no appreciable impact on access to post-secondary education or student debt, such as the Registered Education Savings Plan and education tax credits.

Perhaps the best example of ineffective direct spending is the Millennium Scholarship Foundation. An independent review of the Foundation conducted in the fall of 2003 concluded that the impact of the program was “minimal at best”.

Figure 1 : Federal Post-Secondary Education Transfers as a Share of Gross Domestic Product, 1968-2003



Although direct spending was increased, transfers to the provinces for post-secondary education were cut significantly between 1995 and 1998 (see Figure 1), bringing the core federal contribution to its lowest levels in more than 30 years. Provinces struggled with the increased burden and passed those costs on to students and their families. As a direct result, tuition fees at Canada’s universities more than doubled in less than a decade. Thus, while eliminating Canada’s budgetary deficit, it was shuffled off the national books and onto the backs of students in the form of student debt.

Modest transfer payment increases in recent federal budgets have merely restored cash transfers to the 1993 level in *absolute dollars*. However, when accounting for population growth and inflation, the per capita federal cash transfer for post-secondary education is more than 50% below the 1993 level. It is estimated that an additional \$2.2 billion per annum would be required to return cash transfers to the 1993 level.

## Towards a Post-Secondary Education Transfer

It is commonly understood that the federal government's emphasis on direct spending over provincial transfers was motivated by the desire to see immediate results in areas of direct federal jurisdiction (university research, income tax). During the 1990s, direct spending became a proxy for engagement with provincial governments in discussions about how to improve the quality and affordability of Canadian universities and colleges.

However, these types of discussions have taken place in the area of health care and have been relatively successful. Initiative from the premiers has fostered crucial collaboration from which all Canadians benefit. The same spirit of collaboration must be brought to federal-provincial negotiations to improve post-secondary education.

The federal government has a clear constitutional role in the core funding of universities and colleges. That the Prime Minister has responded to the call of the Canadian Federation of Students for a post-secondary education transfer is encouraging, but the conditions and commitments for such a transfer will determine its viability. Not only must there be a distinct payment to the provinces for *public* universities and colleges, but mutually agreed upon principles for spending must also be established.

The Canadian Federation of Students and the Canadian Association of University Teachers (CAUT) both recommend the adoption of legislation or other binding forms of agreement that would establish conditions for federal post-secondary education transfers. These conditions would outline principles similar to those of the Canada Health Act: public administration, accessibility, comprehensiveness, democratic governance, and academic freedom. In return for upholding these principles, provincial governments would receive increased and predictable funding from the federal government, while maintaining the flexibility to determine and fund regional priorities.

One of the first steps to creating the conditions for a collaborative strategy with provincial governments is for the federal government to commit to restoring cash transfers to 1993 levels in real dollars (approximately 0.33% of gross domestic product), with an eye to achieving 0.5% of gross domestic product.

## Canada Can Easily Afford to Reinvest in Accessibility

Federal re-investment in core funding to universities and colleges is long overdue. As noted earlier, cuts to post-secondary education transfers (espoused at the time as essential to eliminating Canada's deficit) were borne by students in the form of higher tuition fees and deeper student debt. Despite ten budgetary surpluses since 1997, the damage done to the accessibility of universities and colleges has yet to be reversed.

Even in the event of an economy that is cooling down, the federal government is in a strong position to reinvest. For example, scrapping so-called financial aid programs that either do not work (Millennium Scholarships) or are misdirected (Canada Education Savings Grant) would generate savings of upwards of \$700 million per year that should be directed at a comprehensive system of needs-based grants.

**RECOMMENDATION** *The federal government should, in cooperation with the provinces, create a post-secondary education cash transfer payment for the purpose of reducing tuition fees and improving quality at universities and colleges. The transfer should be guided by the principles in a Post-Secondary Education Act.*