
CAUT Analysis of Federal Budget 2008

The 2008 federal budget offers up very little new money for post-secondary education and research. Instead, the budget is largely a grab bag of modest initiatives with little coherent focus. Faced with a larger than expected surplus, the government chose to devote the bulk of this to debt reduction at the expense of other pressing needs.

Fiscal Outlook

With concerns about a possible slowdown in economic growth this year, Budget 2008 is notable for its lack of stimulus initiatives. What makes this particularly troubling is that the federal government has substantial fiscal room available. The government chose to take \$10.3 billion of the total 2007-08 surplus of \$13 billion to pay down debt. A more balanced approach would have seen more of this money used to fund the major investments that are badly needed in infrastructure, health and education – initiatives that would have helped support a slowing economy and provided needed benefits for Canadians.

Looking ahead, the government is projecting dwindling surpluses as already announced tax cuts take full effect this fiscal year and next, reducing revenues by nearly \$15 billion. It is predicted that the surplus will fall to just over \$2 billion in 2008-09, and just over \$1 billion in 2009-10. Tax revenues, as a share of GDP, fall sharply in 2008-09 and continue to decline in the years ahead. Meanwhile, as a result of some spending cuts in the budget, program expenses as a share of GDP remain flat.

Budgetary revenues and expenses as a share of GDP						
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Tax revenues	16.0	15.3	15.3	15.2	15.1	15.1
Program spending	13.2	13.1	13.2	13.1	13.0	13.0
Public debt charges	2.2	2.0	2.0	1.9	1.9	1.8
Total expenses	15.3	15.1	15.2	15.1	14.9	14.8
Federal debt	29.9	28.7	27.5	26.0	24.7	23.6

Federal Transfers for Post-Secondary Education

Given the larger than expected surplus, the budget is particularly disappointing in that there is no new money for post-secondary education in the Canada Social Transfer (CST). The share of the CST dedicated for post-secondary education remains at \$3.2 billion for 2008-09, as provided in last year's budget. This is set to increase by just 3 per cent annually, below the increase in inflation and enrolment.

A significant increase in the cash transfers for post-secondary education would have gone further to ensure that university and college education is more affordable; that class sizes could be reduced; that course offerings could be increased; that there would be adequate numbers of faculty; and that facilities, labs, and library holdings could better meet student and faculty needs.

Student Financial Assistance

The most important post-secondary education initiative announced in the budget is the creation of the Canada Student Grant Program. The program will take effect in 2009. It will be funded from existing grant programs with the amount of money provided equivalent to what has been spent annually by the Canada Millennium Scholarship Foundation, which is to be wound down. CAUT has long advocated consolidating all federal student grants into one government-administered needs-based program and that overall funding be increased. But, because the funding level remains essentially the same, there will be no net financial benefit to students in this new grant program.

The program will provide monthly grants of \$250 for low-income students and \$100 for middle-income students. Students will be eligible for the grants through all years of an undergraduate or college program. The government estimates that 245,000 college and undergraduate students will be eligible in the first year of the program. While CAUT is pleased that more students will receive support, it is disappointing that the level of support will be just \$2,000 for low-income students and only \$800 for all other grant recipients.

The Canada Student Grant Program is a positive initiative. Canada had been one of the few industrialized countries without a national needs-based student grant program. Nevertheless, the government had the resources to provide more adequate funding to the program and chose not to.

The major form of financial assistance for students is the Canada Student Loans Program. Contrary to expectations, the budget did not announce any reduction in the CSLP repayment interest rate. It had been widely expected the government would reduce that rate from prime plus 2.5% to prime plus 1% — helping students better cope with their extremely high debt loads.

The budget does provide \$23 million over four years, starting in 2009-10, to develop new services for the Canada Student Loans Program that will allow students to manage their loans on-line. Additionally, \$26 million over four years is allocated to reduce the expected spousal contributions when determining CSLP eligibility. Finally, a modest \$74 million over four years will be spent to assist those experiencing difficulty in repaying their loans.

The budget makes some changes to the Registered Education Savings Plan (RESP). Effective January 1, 2008, the maximum time limit that an RESP may remain open will be raised from 25 to 35 years, and the maximum contribution period will be extended by 10 years. The government is also proposing to introduce a six-month grace period for making a withdrawal from an RESP. It is estimated that these measures will have a small fiscal impact.

Support for Graduate Students

It had been widely expected that Budget 2008 would have provided significant new support for graduate students. However, the initiatives are quite modest and narrowly targeted.

The budget establishes a new Canada Graduate Scholarship Award, named after Georges Vanier and designed to support 500 top new Canadian and international doctoral students. The scholarships will be worth \$50,000 for a maximum of three years. It is curious that, while providing generous support, the new award was designed to provide only three years of funding whereas most doctoral programs take four to five years to complete. This leaves students without support during the crucial final years of their dissertation writing.

The government is also adding \$3 million over the next two years to the granting councils to create a new stipend for Canadian recipients of graduate scholarships, including the new Vanier awards, who study outside the country. The stipends will be worth up to \$6,000 and will be available to 250 students each year.

Increasing support for graduate students should be a priority, particularly at a time when there is a growing need for new faculty at universities and colleges across Canada. However, the initiatives announced in the budget are very modest, affecting only 500 doctoral students a year. With no new money for the continuing Canada Graduate Scholarships, there will be less support in real dollar terms for current programs.

Research

Budget 2008 allocates \$21 million over two years to establish up to 20 Canada Global Excellence Research Chairs. The chairs are to be created in four priority areas targeted by the government: the environment, natural

resources and energy, health, and information and communication technologies. Each chair will receive up to \$10 million over 7 years.

The chairs will be competitively awarded based on a candidate's research excellence, standing in the international science community, and potential to place an institution at the forefront of research in a field.

The budget provides an additional \$80 million per year for NSERC, CIHR and SSHRC. For NSERC and SSHRC the money is heavily targeted toward priorities set by the government. NSERC will be provided with \$34 million per year for collaborative research that meets the needs of Canada's automotive, manufacturing, forestry and fishing industries. SSHRC will receive \$12 million per year for research on the social and economic development needs of northern communities, and on how the environment affects the lives of Canadians. CIHR gets \$34 million per year for research that "addresses the health priorities of Canadians."

While the new funding is certainly welcome, it is disturbing that the government is setting research priorities and, for the second year in a row, prohibiting the granting councils from awarding any of the increase to other than the government's designated priorities. CAUT believes the funding should be provided to the base budgets of the granting councils and that all projects in all fields should be assessed on their merit by the research community.

Other research initiatives in the budget include a modest increase in funding for the indirect costs of research, rising by \$15

million or less than 5%. As well, Genome Canada receives \$140 million, funded from the surplus in the current fiscal year. The Canadian Light Source research synchrotron, located at the University of Saskatchewan, is provided with \$10 million above its current funding of \$16.5 million over the next two years.

Other Budget Measures

The centerpiece of the 2008 budget is the creation of a new Tax Free Savings Accounts (TFSA) program. Starting in 2009, Canadians 18 years and older will be allowed to put up to \$5,000 per year in a special account. The investment income earned will be tax free and unused contribution room can be carried forward. Any withdrawals made can be re-contributed at a later date.

For the average person with modest savings in a bank account or GIC, the tax saving on interest income will be minimal. However, those who can save the maximum contribution of \$5,000 per year will enjoy significant tax savings as time goes by. Officials estimate the foregone federal revenues as a result of TFSA's at \$3 billion per year in twenty years.

Surprisingly, the budget provides very little relief for the beleaguered manufacturing sector. As expected, the two year fast write-off for new investment in machinery and equipment was extended. A small Automotive Innovation Fund of just \$50 million per year over 5 years will be used to support research and development in the automobile sector.

The budget offers very little for health care. There is an increase in the Medical Expense Tax Credit of \$10 million over two years beginning 2008-09. The government's response to the shortage of long-term care is limited to giving a GST/HST rebate to the purchase and renovation of long-term care facilities.

The existing Gas Tax transfer to municipalities, worth almost \$2 billion per year and set to expire in 2013-14, will be made permanent. However, this is well shy of the 1 percentage point of the GST, or \$6 billion per year, called for by cities. Up to \$500 million will go to support public transit projects in Toronto, Vancouver and Montreal.

The Budget announces some extremely modest environmental and climate change measures, including implementation of industrial emissions controls, \$250 million for carbon capture and storage technology, and \$300 million for Atomic Energy Canada Ltd. (AECL) to support new nuclear power development. The rebate for fuel-efficient cars will expire at the end of this year.

There are few initiatives to deal with poverty. The principal one is the allocation of \$60 million per year to raise the amount low-income seniors can earn while retaining full eligibility for the Guaranteed Income Supplement (GIS) from \$500 to \$3,500. In addition, the budget provides \$110 million to the Mental Health Commission to support demonstration projects focused on mental health and homelessness.

The budget also announces a series of spending cuts that will total \$386 million

when fully implemented. Almost half of this reduction falls on programs administered by the Canadian International Development Agency (CIDA). The government claims money saved here will be re-allocated to other development assistance programs.

CAUT is particularly concerned that there was no new money for government science and there are significant cuts to Statistics Canada which is already struggling to undertake its work. Reductions are also planned for the budgets of Parks Canada, Canadian Heritage and to the Canada Food Inspection Agency.

Conclusion

The Conservative government's third budget is startlingly short on vision and leadership, and not just for post-secondary education and research. Despite the urgent need for action, the federal budget provides meager economic stimulus and does little for climate change, poverty, urban infrastructure and health care.

The big ticket item in the budget, a new tax-free savings account plan, does nothing to meet these pressing needs.

To their credit, the Conservatives have established a national needs-based student grants program. However, there will be little change in the total amount of support made available to students collectively. Importantly, there was no action to reduce the punishingly high interest rates charged on student loans.

Meanwhile, the modest and narrowly targeted increases in support for graduate students and research raises concerns about the direct steering by government of research priorities, rather than by those in the research community.

Most significant, however, was the absence of any increase in core funding for post-secondary education. As a result, the major problems facing Canada's universities and colleges will only grow worse.