

Federal Funding Due For A Change ?

By Valerie Shore reprinted from university affairs

ANOTHER FEDERAL-PROVINCIAL BATTLE is looming on the horizon and this time Canada's universities may be the losers.

The federal government has indicated that it is not happy with several major cost-sharing programs with the provinces. Uppermost among these is the Established Programs Financing (EPF) scheme, through which billions of federal dollars go to the provinces each year to help finance hospital insurance, medicare — and postsecondary education.

It is in this last area, postsecondary education, that the battle lines are being drawn. Faced with a deficit of almost \$12 billion, Ottawa is looking for ways to save money. Government sources hint that the postsecondary portion of EPF, which cost more than \$3 billion in 1980-81, may be a target for savings.

If this is true, and Ottawa unilaterally reduces or stops transfer payments intended for the postsecondary sector, the resulting uproar could seriously damage the already pinched financial state of Canadian universities.

"Candidate for savings"

There is no doubt that EPF is now under review by the federal government. In his budget speech last October, Finance Minister Allan MacEachen noted that a large portion of federal spending consists of transfer payments to the provinces under social programs such as EPF.

According to Mr MacEachen, the government intends to achieve net savings in social program areas in order to finance initiatives in other fields, such as energy and economic development.

"Savings are expected to include reductions in federal transfers to provinces relating to areas coming under provincial jurisdiction", he stated.

A more specific reference to postsecondary education was made by Monique Bégin, Minister of Health and Welfare, on a CBC radio program in November. Mme Bégin stated that the hospital insurance and medicare components of EPF will not be changed. The postsecondary portion, however, is another matter.

"That element is called a social transfer but really it is education... and is very elitist... This is a candidate for savings which will be rechannelled differently", she said.

Diminishing visibility

Ottawa's growing dissatisfaction with the postsecondary portion of EPF is not solely related to money. Rather, it is a problem of rising costs coupled with diminishing visibility and impact. Although the federal government is paying an ever-increasing share of postsecondary costs, the provinces are in full control over how and where the money is spent.

It wasn't always this way. Prior to 1967 federal funds did not go through the provincial governments at all.

The first general federal support program for universities was begun in 1951 with direct grants amounting to 50 cents per capita of provincial population. Within each province the sum available was distributed to those institutions that belonged to the National Conference of Canadian Universities (the predecessor of the Association of Universities and Colleges of Canada — AUCC) in proportion to their enrolments.

The program lasted 16 years. By 1966-67, its last year, the rate of support had risen to an average of \$5 per capita of provincial population. During this period, the provinces still paid the larger share of general university income. But there was a growing resentment in provincial circles of the direct federal presence.

This resentment was most noticeable in Québec, where the province's universities were instructed not to accept the federal money. The matter was finally resolved in 1960-61 when a special tax transfer arrangement was negotiated. (The other provinces were offered the same deal, but they declined.)

Fiscal Arrangements Act

This arrangement with Québec proved to be the precursor of a new federal act in 1967, which was intended to placate provincial complaints of federal interference in higher education.

Under the terms of the 1967 Fiscal Arrangements Act, the federal government agreed to pay half the operating costs of postsecondary institutions. The big change was that payments were made to the provincial governments rather than directly to the institutions.

The payments were largely in the form of tax transfers. While the federal government reduced its corporate taxes by one per cent and personal income tax by four per cent, the provinces increased their taxes by like amounts. If the revenue from these taxes did not bring the federal total up to 50 per cent, then an adjustment payment was made.

For those provinces with too small a tax base, an alternative formula was offered, based on a fixed per capita sum (initially \$15) instead of operating costs. Newfoundland, P.E.I. and New Brunswick took this option for the duration of the program.

Costly for Ottawa

The scheme proved a costly one for Ottawa, in more ways than one. Not only did federal payments escalate, but the government had committed itself financially to an area over which it no longer had any spending control.

With the rapid enrolment growth and marked expansion of graduate studies in the late 1960s, federal expenditures under the program skyrocketed. Costs rose more than 20 per cent annually during the first five years. In fact, in 1970-71 and 1971-72, the adjustment payment outstripped the value of the tax points.

In an attempt to control spending the formula was modified in 1972. A "cap" was placed on the federal contribution so that the total sum (tax transfers plus adjustment payments) could rise no more than 15 per cent in any one year over the country as a whole. The tax transfer was also altered to 4.357 per cent of federal personal income tax, plus the one per cent of taxable corporate income.

Mollify the provinces

By 1977 both parties wanted change. There were many complaints about the program: it distorted provincial spending priorities by encouraging spending on postsecondary education; it rewarded provinces who chose to spend high amounts on postsecondary education; and auditing and verification of provincial costs were time-consuming and a

annual block payments to each province.

As EPF was originally devised, these payments were to be half in tax transfers and half in cash. The tax portion would grow with the annual increase of tax yields in each province and the cash portion would be tied to the growth of the Gross National Product (GNP).

The size of the first payment under EPF was based on federal contributions to the three programs in fiscal 1976. This figure was split down the middle; half to be generated through tax transfers and half by cash. To meet the tax portion, a total of 13.5 personal and one corporate income tax points were transferred to the provinces. This included the 4.357 personal and one corporate income tax points that the provinces already had under the Fiscal Arrangements Act. Tax points were equalized to the national average.

To the cash half the federal government added a "transitional payment". This special payment was meant to ensure that provinces with a low tax yield would receive at least as much as if the whole transfer had been in cash. It was supposed to be a stopgap measure and eventually phase itself out as tax revenues grew. However, since tax revenues have in fact grown less rapidly than the GNP, the transitional payment has actually increased.

Postsecondary money unconditional

It is the steadily rising cash portion of EPF that is causing so much concern in federal circles. That, coupled with one major feature of the program — no conditions are attached to the money intended for postsecondary education.

Although the federal government nominally earmarks about 32 per cent of its total EPF cash outlay for postsecondary education, the provinces are under no obligation to spend it there. They can spend the money on education or on anything else.

That money "designated" for universities is being spent in other areas is likely but difficult to prove. There are indications, however. Based on Department of Secretary of State estimates, \$1.3 billion of the total EPF transfer in 1977-78 was "intended" for universities. This figure rose to \$1.9 billion in 1980-81, an increase of 46.1 per cent over the three years. By comparison, Statistics Canada figures show that total provincial operating grants to universities, including sponsored research, increased by only 25 per cent over the same period.

In the meantime, the federal government has been paying a greater and greater share of the cost of postsecondary education. For example, in 1977-78, the federal transfer

Established Programs Financing - Postsecondary Portion
(In millions) *

Province	1977-78			1980-81**		
	Cash	Tax	Total	Cash	Tax	Total
Newfoundland	27.5	21.2	48.7	45.9	27.9	73.8
P.E.I.	5.5	4.5	10.0	9.8	6.0	15.8
Nova Scotia	43.5	31.3	74.8	67.5	41.1	108.6
New Brunswick	33.8	25.8	59.6	56.0	34.1	90.1
Québec	249.5	349.5	599.0	350.0	454.2	804.2
Ontario	418.5	348.6	767.2	636.8	455.2	1,092.0
Manitoba	56.0	38.6	94.6	81.4	49.6	131.0
Saskatchewan	48.0	35.1	83.1	76.8	46.8	123.6
Alberta	84.5	91.6	176.1	140.1	124.8	264.9
British Columbia	107.2	110.0	217.2	189.9	145.7	335.6
Yukon	0.9	1.2	2.1	1.4	1.5	2.9
N.W.T.	2.3	1.7	4.0	3.3	2.3	5.6
Total	1,077.2	1,059.2	2,136.4	1,659.0	1,389.1	3,048.1

* Rounded off to the nearest million

** preliminary calculation

Data supplied by Education Support Branch, Secretary of State

constant source of irritation between the two levels of government.

EPF, which came into effect in April 1977, was again intended to mollify the provinces. In essence, it reduced even further the visibility of the federal government in postsecondary education.

Under the program, payments are no longer tied to provincial spending. Instead, the three "established programs" — postsecondary education, hospital insurance and medicare — are funded by

"intended" for universities represented 65 per cent of total provincial grants to universities, including sponsored research. By 1980-81, this figure had increased to 76 per cent.

No recognition

What hurts the most, say federal officials, is that they are getting no recognition for their investment.

When EPF was first introduced, the federal