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Karori Lions Club

**Who Should Pay?
Tuition Fees and Tertiary Education Financing
in New Zealand**

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Who Should Pay? Tuition Fees and Tertiary Education Financing in New Zealand

During the 1990s, the introduction of so-called 'market-based' reforms in tertiary education was one of the most controversial aspects of policy reform in New Zealand. A key issue of discussion has been the related issue of tertiary education financing and, in particular, who should pay for the costs of tertiary education in New Zealand.

This is an issue that is broached in a recent report that I wrote for the Education Forum. That report, entitled *Who Should Pay? – Tuition Fees and Tertiary Education Financing in New Zealand*,¹ addresses many of the issues that I will speak about this evening.

I think most of you would agree with me that tertiary education is a good thing. And good for a variety of reasons:

- scholarly research and the pursuit of knowledge are worthwhile endeavours;
- education can increase economic opportunity; and
- research shows that education can play an important role in promoting economic growth.

If tertiary education is to play all of the above roles, however, it needs to be appropriately resourced. Quality tertiary education does not come cheap.

But to say that tertiary education is good says nothing about who should pay for it.

Broadly speaking, the resources needed to finance tertiary education can only come from two sources – taxpayers or the private sector (principally student fees).

Throughout the 1990s, New Zealand and most other developed and developing countries pursued a policy of increasing the private sector share of tertiary education costs.

This manifested itself in the form of:

- the introduction of (or increase in) tuition fees;
- less regulation of tertiary education providers;
- a reduction in government subsidies as a share of tertiary education costs;
- a move away from grants toward loans; and
- an increase in the size of the private education sector.

This was true in developed countries such as Canada, the United Kingdom and Australia. It was also true in developing countries such as Ghana, the Philippines and China. There were some exceptions to this, but they were relatively few in number.

¹ *Who Should Pay? – Tuition Fees and Tertiary Education Financing in New Zealand* can be bought (NZ\$27.95) or downloaded from www.educationforum.org.nz

The tertiary education reforms in New Zealand have often been criticised for being radical or 'out there'. For example, the New Zealand University Students' Association (NZUSA) argued recently that "New Zealand led the world in user pays education" In fact, they were nothing of the sort.

As my report shows, the New Zealand reforms were simply part of a much broader worldwide trend toward 'market-based' reforms in tertiary education. Indeed, in many respects, New Zealand was a newcomer to the game – countries such as the United States, Canada and Sweden introduced student loan schemes in the mid-1960s, while Ghana did so in the early 1970s and the Philippines in the mid-1970s.

While the 1990s were a period in which the arguments for greater private financing and provision of tertiary education became more widely recognised, the 'noughties' have seen the scaling back – though not outright reversal – of many of these policies. For example:

- per-student tuition subsidies are on the way back up – with successive increases of 2.3%, 2.8% and 4.5% for 2001, 2002 and 2003;
- tuition fees were frozen from 2001-2003, to be replaced by fee maxima from 2004;
- increasing subsidisation of the student loan scheme through the write-off of interest while students are studying; and
- reducing per-student subsidies to private education providers.

The prospect is for more moves in the same direction, with the Associate Minister of Education (Tertiary Education) foreshadowing a widening of access to student allowances as part of the student finance review that is underway.

Since late 1999, the changes made have been fairly significant and have increased the amount of subsidy going to the tertiary education sector, which raises the question: Who should pay for tertiary education?

My view is that, while there is some justification for government subsidy of tertiary education, current funding levels go well beyond what can be supported by mainstream public policy analysis.

As a consequence I believe per-student taxpayer subsidies to tertiary education should be reduced.

One of the chief arguments against such a policy move is that it would deter students from pursuing tertiary studies – either generally or for students from traditionally disadvantaged groups. I would make two points in response to this.

First, we should not see formal tertiary education as the be-all and end-all. Formal tertiary studies are but one means of skill acquisition. From society's perspective we should increase tertiary participation only as long as it is delivering net benefits to society. As Alison Wolf argues – just because something is good, does not necessarily mean that more of it is better.²

There is an opportunity cost to that spending – money spent on tertiary education is money that can't be spent on heart transplants, teacher salaries or (dare I say it) allowing taxpayers to keep more of their hard-earned income. On-the-job training – whether formal and informal – is another important means of acquiring and maintaining skills. Employees in effect pay for such training through lower starting-level wages.

Second, the evidence shows that, for most groups in society, tuition fees do not unduly deter students from pursuing a tertiary education. Why would we expect this to be true in New Zealand? There are several reasons:

- education is an investment that yields a good return to graduates in the form of higher earnings and lower unemployment. According to a study by Sholeh Maani of Auckland University, an employed male with a Bachelor's degree could expect to earn \$140,000 more than someone with no qualification over a lifetime;
- the student loan scheme means students do not need to pay fees up front; and
- the interest write-off mechanism for graduates on low incomes provides an element of insurance against unemployment once they have graduated.

Finally, it is important to remember that tuition fees are not the biggest cost facing tertiary students – the biggest cost is the opportunity cost of studying (i.e. what students could have earned if they had chosen to work, rather than study).

The deterrence argument is certainly not consistent, *prima facie*, with New Zealand's experience during the late 1980s and 1990s (a period when fees rose from essentially zero to an average of \$3,500 by 1999):

- the number of Equivalent Full Time Student places in tertiary education nearly doubled between 1989 and 2000;
- Maori enrolments rose by over 46% between 1994 and 2000; and
- the proportion of school leavers from decile 1 and 2 schools who went on to some form of tertiary education rose from 18% to 26% between 1997 and 2000.

The OECD noted recently that tertiary education entry rates in New Zealand were highest among OECD countries for both 'low level' and 'high level' tertiary education. This has happened despite the increase in fees over the 1990s.

² Wolf, Alison (2002), 'Knowledge economy fails the test', *FT.com*, 24 May.

The evidence from overseas is similar. Countries such as Korea, the United States and Canada have both high fees and high tertiary education participation.

Indeed, as noted by the OECD, in the six countries with the *lowest* entry rates to tertiary-type A (higher level) education in 1999, private sources of total educational spending on tertiary institutions was low — between only 2% and 28%.

In its most recent *Education at a Glance* report, the OECD summed up the evidence by saying that it was not obvious that paying for your own tertiary education created economic barriers, as long as governments had appropriate strategies to make funding accessible to students from all income groups.³

Students from low-income backgrounds remain ‘under-represented’ among the tertiary student population. However, if anything, this situation got better, not worse, during the 1990s. The very low tuition fees in New Zealand prior to the late 1980s certainly did not deliver world-leading tertiary participation rates or indeed significant participation among the poor.

The upshot of this is that the government’s prescription for increasing participation in tertiary education – fee freezes and general increases in subsidy levels for example – is wrong. It will do little to help tertiary education participation or to lift opportunity for those from disadvantaged backgrounds.

The most likely impact of the fee freeze/maxima will be a running down of the tertiary education sector as institutions lose their ability to compete for staff and keep up with international competition for quality courses.

A more appropriate policy package for increasing and broadening participation would involve:

- targeted assistance at the tertiary level; and
- a focus on providing assistance and support to students at earlier levels of education.

Trying to tackle tertiary education equity issues or ‘under-representation’ solely through tertiary policy changes is akin to closing the barn door after the horse has bolted.

³ Organisation for Economic Cooperation and Development (2002) *Education at a Glance: OECD Indicators, 2002 Edition*, Centre for Educational Research and Innovation, p 188.

⁴ Maani, Sholeh (1997) *Investing in Minds: The Economics of Higher Education in New Zealand*, Institute of Policy Studies, Wellington, p 186.

As Sholeh Maani argues:

“... the introduction of student assistance packages at the tertiary level is not a sufficient condition to increase the participation by the economically disadvantaged at the tertiary level.”⁴

She is not alone in putting forth that view. Others such as Pamela Robinson and Paul White of Brunel University in the UK and Maureen McLaughlin, who spent 6 months in New Zealand on a Fulbright scholarship studying this very issue, make similar arguments.⁵

The NZUSA recently called for the removal of tuition fees – a ‘fully funded’ education system to use their terminology. The rationale for this is to prevent fees from deterring people from undertaking a tertiary education.

Would it work?

Ireland provides a useful case study. It removed tertiary fees in the mid 1990s. A recent report by Patrick Clancy of University College Dublin found that huge class disparities remained despite the abolition of fees and that participation levels had actually fallen in some poorer Dublin areas. The main deterrent to poor students attending tertiary education was found to be family attitudes and aspirations, rather than financial worries.

According to a report in *The Guardian*, the Clancy report is believed to have led politicians in Ireland of both the left and the right to be “privately concerned that the abolition of fees simply subsidised the middle classes without improving the participation of poorer students”.⁶ The return of fees is now reported to be on the horizon.

Much of the discussion about tuition fees is negative. But we should not discount the beneficial aspects of tuition fees. In particular, they:

- provide for greater neutrality between on-job and institution-based training;
- provide an independent and ‘distributed’ source of revenue for tertiary education institutions;
- introduce increased neutrality between private and public institutions and between different types of formal learning;

⁵ Robinson, Pamela and Paul White (1997) *Participation in Post-Compulsory Education, Draft Report*, Centre for Education and Employment Research, Brunel University, Middlesex, p 10 and McLaughlin, Maureen (2002) *Improving Access to Tertiary Education in New Zealand*, Fulbright Lecture, Wellington, 23 July.

⁶ Ryan, Conor (2002) ‘Class Divide Still Rules in Ireland’, *The Guardian*, April 16,

- impose disciplines on institutions by increasing student expectations – an especially important factor where so many of the mechanisms for driving performance are absent; and
- tuition fees also help to redress the regressive nature of spending on tertiary education.

Is it fair to ask students to pay more? I believe it is given that they get most of the benefits, tend to come from families that are, on average, wealthier than taxpayers generally and will go on to earn more than those without a tertiary qualification.

If it is unfair, as some argue, to ask students to pay more, then it is more unfair to ask taxpayers to foot the bill. Why should tradespeople, young farmers or those setting up a business be taxed to pay for the education of the intellectually and/or financially more privileged?

Let's also keep in mind that taxpayers already subsidise tertiary education to the tune of more than \$10,000 per student per year on average (a figure that excludes spending on industry training), representing more than 70% of the direct cost of tertiary education. In 2002/03:

- total taxpayer spending on tertiary education was \$2.59 billion – over \$7 million per day;
- per-student spending on tertiary education was over twice that on school level education and over 5 times that on early childhood education;
- between 1999/00 and 2002/03, annual spending on tertiary education increased by over \$670 million and is forecast to increase by a further \$299 million per year by 2005/06; and
- tertiary education spending represents over one-third of the education budget and that share is forecast to rise.

It is often argued that New Zealand tertiary institutions are under-funded relative to countries such as the United States, Australia or the United Kingdom. But, could anyone seriously expect otherwise? It is simply silly to argue that New Zealand could or should fund tertiary education at the same level as much richer countries.

You can't expect to live a first-world lifestyle when you are a low middle-income country. Indeed, relative to its ability to pay (as measured by GDP), New Zealand spends heavily on tertiary education. According to the OECD, New Zealand was sixth among OECD countries in total public spending on tertiary spending as a proportion of GDP.⁷

⁷ Organisation for Economic Cooperation and Development (2001) *Education at a Glance: OECD Indicators, 2001 Edition*, Centre for Educational Research and Innovation, p. 100.

This suggests that an important mechanism for sustainably increasing tertiary education funding – both public and private – is not to increase taxes or tertiary education's share of the budget. It is to pursue policies that will increase the country's economic growth.

Doing the right thing in policy terms is not always easy. Tertiary funding matters are always problematic – in New Zealand and elsewhere. The opposition to sensible reforms is well organised and articulate.

The UK government spent two years studying student fee and finance issues before putting forward its proposals for reform. Its discussion paper, released near the end of January, included the introduction of a deferred payment scheme not unlike New Zealand's and a significant freeing up of institutional restrictions on tuition fees through the introduction of top-up fees (up to £3,000) over and above the standard tuition fee of £1,000.

The reforms of the 1990s in New Zealand and the more recent tertiary reforms in Britain represent the triumph of the national interest over special interest politics. The backward moves in New Zealand in recent years represent the reverse.

The proposals set out in my recent Education Forum report have been criticised by some as a throwback to the 'failed policies of the past', but I should point out that they are in fact in the mainstream of policy around the world today and are advocated by centre-left think-tanks such as the Institute for Research on Public Policy and recognised experts on education financing like Prof. Nicholas Barr at the London School of Economics.

Students and staff have much to gain from a less regulated, more market-driven tertiary education system. While regulated fees may seem attractive in the short term to students, they are not likely to in the long term given the likely impacts on education quality.

Markets are much more likely to provide an environment conducive to effective teaching, promote the conduct of scholarly research and deliver a sector that meets the varying needs of students. Central control can lead to a focus on narrow objectives such as enrolment growth rather than quality because the former can be more easily measured from above.

The real concern with the current debate on tertiary education issues is that we are now finding ourselves replaying the past. For example, a recent call from the NZUSA for zero fees represents a strategy that the student members of the Todd Task Force had moved beyond as far back as 1994.

Hearing the calls for zero fees makes me feel like the character Bill Murray played in the movie Groundhog Day — every day I wake up and everything's the same as before.

The government's position of leaving the door open to further policy retreats does nothing but encourage this feeling.

And the government is not alone. The National Party's 'you stay, taxpayers pay' proposal from the last election was as bad as or worse than anything that the government has done.

It's not been all bad news, however. The Labour government has, in the past three years, taken some bold and positive steps in tertiary education:

- it's closed down a number of institutions that were draining taxpayer funds to no good effect;
- it's made positive changes to research funding; and
- it's announced a review of institutional governance.

And they have not reversed all the reforms of the 1990s:

- student allowances continue to be targeted on income;
- tertiary institutions continue to charge fees and have a good degree of self-management;
- the student loan scheme remains in place; and
- funding for private providers is considerably greater than what it was when I arrived in New Zealand in 1992.

But, overall, the policy back-tracking continues and will only stop when someone stands up for the reforms of the 1990s and more importantly, the principles behind them.

National did not do it while in power. Labour has never done it. Someone has to draw a line in the academic sand – and let's hope it is soon.