Policy Options for Student Finance: Contrasting Perspectives

Conference on the Funding of Student Finance: Critical Issues and Policy Options

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If a man empties his purse into his head, no man can take it away from him. An investment in knowledge always pays the best interest.

-- Benjamin Franklin

Evolution of New Zealand Tertiary Education Policy

Pre-1990

- ‘Free’ tertiary education
- Full student allowances
- Small private sector
- Low tertiary participation rate
- Dual system - universities and polytechnics regulated differently:
  - Universities - considerable autonomy, UGC funded
  - Polytechnics – input funded, little autonomy

1990s

- Increased participation in tertiary education
- Increased autonomy and self-management
- Introduction of cost-sharing
- Student loans introduced
- Targeting of student allowances
- Institutional freedom to set tuition fees
- Increased role for private providers

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Evolution of New Zealand Tertiary Education Policy (Cont'd)

- Reforms of 2000s involved some backtracking on 1990s reforms, but broad policy framework remains – loans, targeted allowances, tuition fees, private sector
- However, major policy changes within this framework:
  - Removal of student loan scheme interest for students, then for some graduates
  - Reduced targeting of student allowances
  - Scaled back private sector assistance
  - Controls on tuition fees
- Other reforms: TEC, outcomes based funding, performance-based funding, relatively small changes to student loan scheme

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Overall Assessment

- Reforms of 1990s were:
  - Based on policy ‘good practice’
  - Consistent with emerging international practice
  - In line with mainstream thinking on student finance policy
- A number of student finance policy changes in the early to mid 2000s – especially those relating to student loans and regulation of tuition fees – represented a significant policy step backwards
- These changes have had significant costs, but uncertain benefits

Proposed Reform Direction

- Reforms should return student finance policy settings closer to their original early 1990s design:
  - Increase private contribution to tertiary education by restoring institutional freedom to set tuition fees
  - Reform student loan scheme by reintroducing interest charges for borrowers and graduates
  - Increased targeting of student allowances
- Focus on increasing access to, and quality of, tertiary education:
  - Improve secondary education
  - Target access for at risk groups
  - Fund research excellence

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Increased Private Contribution to Tertiary Education I

- Increased private contribution would boost overall resources to the tertiary education sector – quality does not come cheap
- Consistent with international trends – 20 of 26 OECD countries with comparable data showed an increase in the share of private funding for tertiary education between 2000 and 2008
- Public and private expenditures tend to be complements, not substitutes – many OECD countries with the highest growth rates in private spending have also had the largest increases in public funding

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Increased Private Contribution to Tertiary Education II

- Unlikely to lead to significantly deter tertiary education participation in New Zealand:
  - Existence of significant student finance system in New Zealand – no up-front costs, income contingent loans
  - Tertiary participation driven much more by non-financial factors such as parental education, parental attitude to tertiary education and secondary education preparation
  - Incentives to invest in tertiary education are strong – net gain from investing in tertiary education exceeds $US175,000 for men and $US110,000 for women across OECD countries – lower in New Zealand
  - Direct costs of tertiary education are much lower than opportunity costs

Increased Private Contribution to Tertiary Education III

- Recognize significant public contribution that taxpayers are already making to tertiary education in New Zealand:
  - Significant taxpayer contribution – public spending on tertiary education = $4.5 billion (>6% of core Crown spending) in 2010/11
  - Government share of tuition costs already high = 73% (84% taking into account student loan subsidies)
  - Government spending on tertiary education in New Zealand is high compared to other countries – nearly 2% (4^{th} out of 32 OECD countries)

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Reform Student Loan Scheme and Student Allowances I

- Reform student loan scheme by restoring interest charges for students/graduates and further target student allowances
- Current system has a number of weaknesses:
  - Significant and growing financial cost to taxpayers:
    - Write down on new lending > $700 million in 2010/11
    - Cost per dollar of lending has increased significantly due to interest write offs – from just 10 cents in early 1990s to more than 45 cents in 2010/11
  - Significant subsidy element in loan scheme – Shen and Ziderman (2008) estimate 'hidden grant' in loan scheme at 41.1% - compare to Australia (25.7%), Canada (1.0%), England and Wales (12.2%) and Netherlands (1.2%)

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Hidden Grant in Student Loan Schemes, Various Countries

Country	Hidden Grant (%)	Country	Hidden Grant (%)
Denmark	35.2	Sweden	35.4
England and Wales	12.2	Norway	43.4
Germany	61.8	China	35.4
Netherlands	1.6	Indonesia	72.4
Australia	25.7	South Africa	49.5
New Zealand	41.1	Egypt	88.1
Canada	1.0	USA – SDSL	20.3
Finland	9.7	USA – UDSL	17.1

Source: Shen and Ziderman (2008) Student Loans Repayment and Recovery: International Comparisons, p. 11.

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Reform Student Loan Scheme and Student Allowances II

- Benefits of reforming current system of student finance:
  - Recognize that New Zealand student loan scheme provides among the most comprehensive assistance to students – tuition fees, living costs, etc
  - Free up resources for improving university teaching and research, and improving secondary education – New Zealand spends about 42% of its tertiary education budget on student aid = more than double OECD average
  - Restore student loan scheme to finance mechanism, rather than vehicle for subsidizing students and graduates
  - Improved access and equity – income contingent loans, focus on secondary education performance
  - Improve incentives in student loan scheme

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Student Loan Schemes, By Scheme Coverage, Selected Examples

Coverage	*Region*		
	Western Europe	*Southeast Asia*	*Other*
Tuition Fees Only		Hong Kong (non-subsidized) Korean schemes Philippines Thailand	Australia
Living Expenses Only	Denmark Finland Norway Sweden	Hong Kong (subsidized) Korea (Ministry of Education)	
Tuition Fees and Living Expenses	England and Wales Netherlands Scotland	China	Canada New Zealand South Africa

Source: Ziderman, Adrian (2005) Increasing Access to Higher Education: A Role for Student Loans, p. 2.

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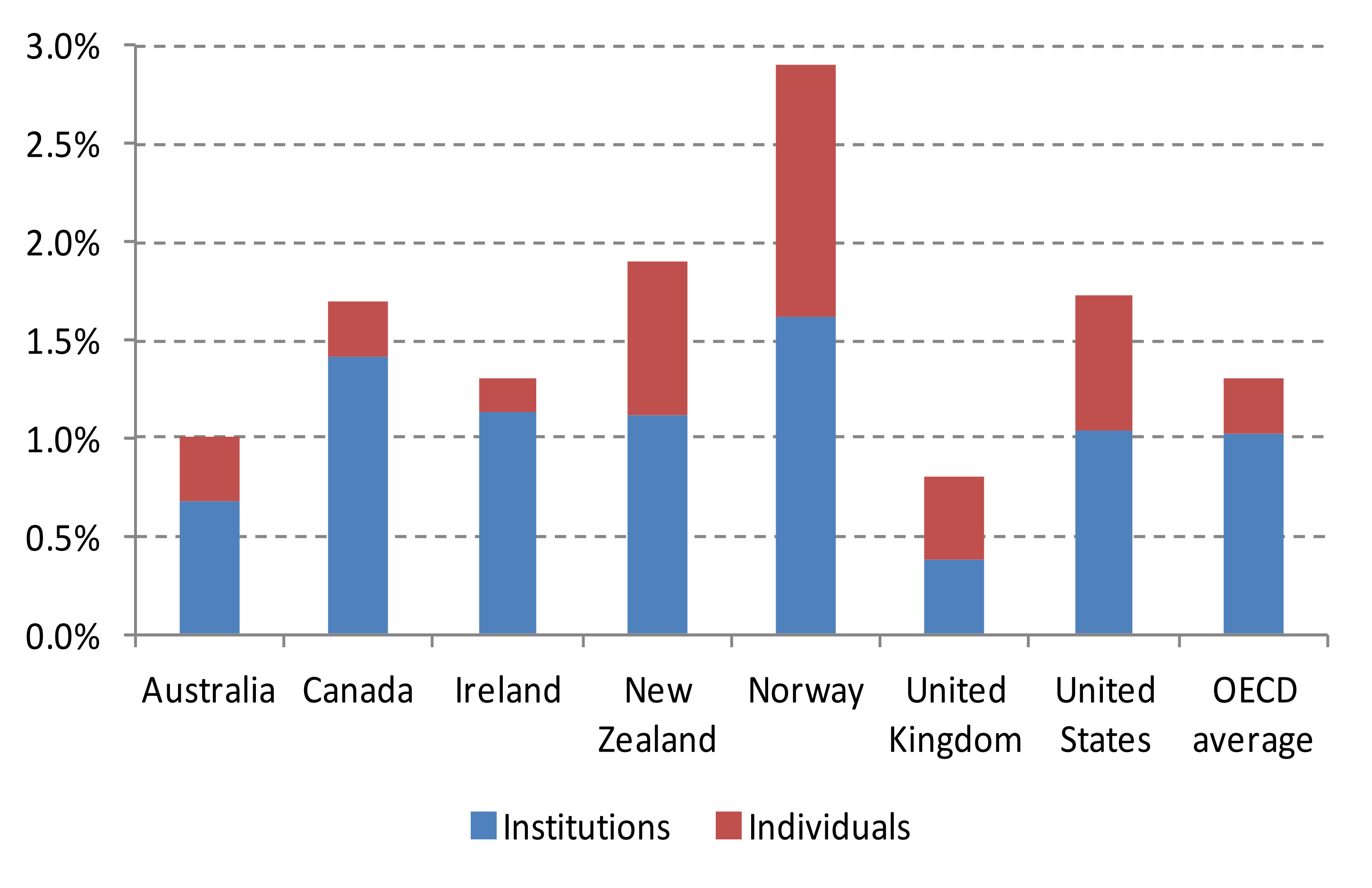
Source: OECD Education at a Glance 2011 (Table B4.1)

Public Spending on Tertiary Education/GDP, by Institution vs. Student Support, 2008 (%)



Source: Ministry of Education (2011)

Recent Reforms: Province of Québec (Canada)

- Historically lowest tuition fees in Canada and highest government spending/student
- Recently proposed Québec University Funding Plan (QUFP):
  - Provide universities with $850 million in additional revenue by 2016/17
  - Shared contribution – government, students and private sector
  - Maintain accessibility – protect low income students by offsetting higher tuition fees under Loans and Bursaries Program
  - Partnership Agreements between Governments/ Universities
  - Tuition fees up by $325/year for 5 years

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Recent Reforms: Province of Quebec (Canada)

- Under QUFP student contribution to university revenues will increase by 31.2%, Québec Government contribution by 50.6% and donations and other university revenue by 18.2%
- Student contribution will increase from 12.7% of total university revenues in 2008/09 to 16.9% in 2016/17
- 35% of tuition fee revenue increase will be returned to students through increased student assistance
- Placements Universités – increase donations to universities by 50% by 2016/17 through enhanced Government matching grant scheme
- Strengthen university-business linkages

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Conclusion

- Reform of tuition fee and student loans policy can deliver considerable benefits for the New Zealand tertiary education sector, with few adverse effects
- Quality is not cheap – access vs quality trade-off
- New Zealand universities face increasing global competition – Government policy must keep up
- Many countries devoting significant resources to tertiary education excellence initiatives:
  - 985 initiative (China)
  - BrainKorea21 (Republic of Korea)
  - 5 year-50 Billion Excellence Initiative (Taipei,China)
  - Global 30 Scheme (Japan)
  - Universities Excellence Initiative (Germany)

Conclusion

- Student loan scheme was lauded as one of the best in the world when introduced – status has eroded
- Recognize the generous terms and conditions of the student loan scheme compared to other countries and alternatives (eg. bank schemes):
  - Comprehensive assistance – tuition fees, living costs, course costs, etc
  - Income contingency – provides 'insurance' against adverse events
  - Non-means tested assistance
- Compare terms and conditions to those borrowing to invest in physical capital

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