



THE UNIVERSITY
OF AUCKLAND

BUSINESS SCHOOL

Conference on the Funding of Student Finance: *Critical Issues and Policy Options* Wednesday 18 April 2012

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Student Loans: the Faustian pact?

Are we reaping the inevitable consequences?

Are chickens coming home to roost for the baby boom generation?

Legacy of 21 years:

- Increasing resentment
- Rapid emigration of the young
- Cumulative effects in widening gaps

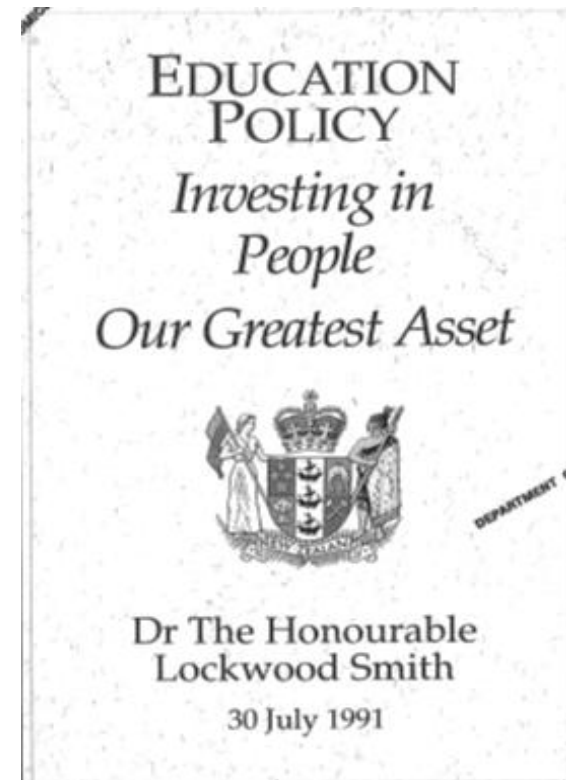


The Faustian pact:

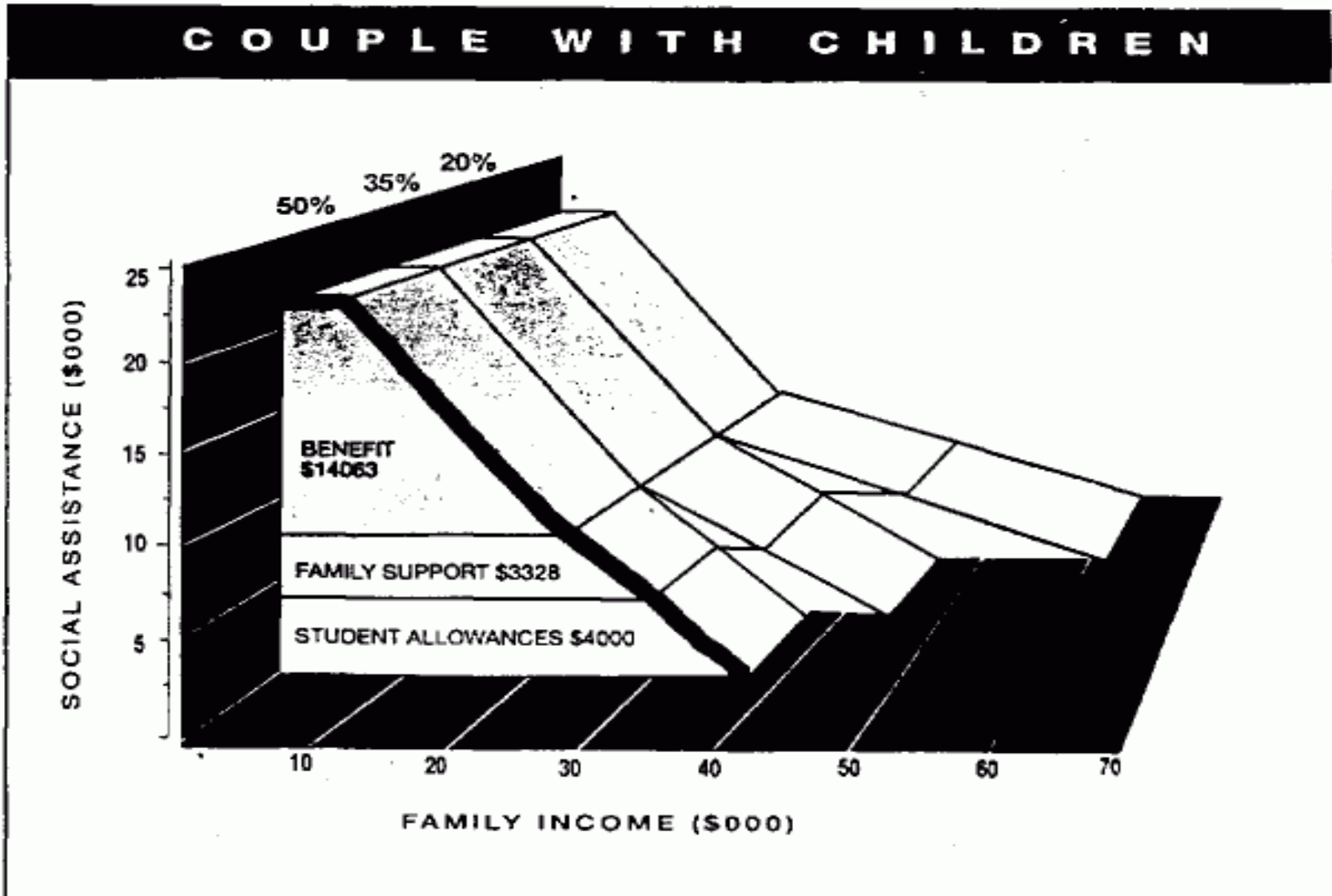
***Welfare that Works* 1991**

- Student loans/targeted assistance
- ***One part*** of a complex package
- Broad base /low tax/user pays for social provisions of all kinds

- Envisioned an integrated approach to targeting via a smart card
- Uniform abatement of targeted provision to solve the EMTR problem

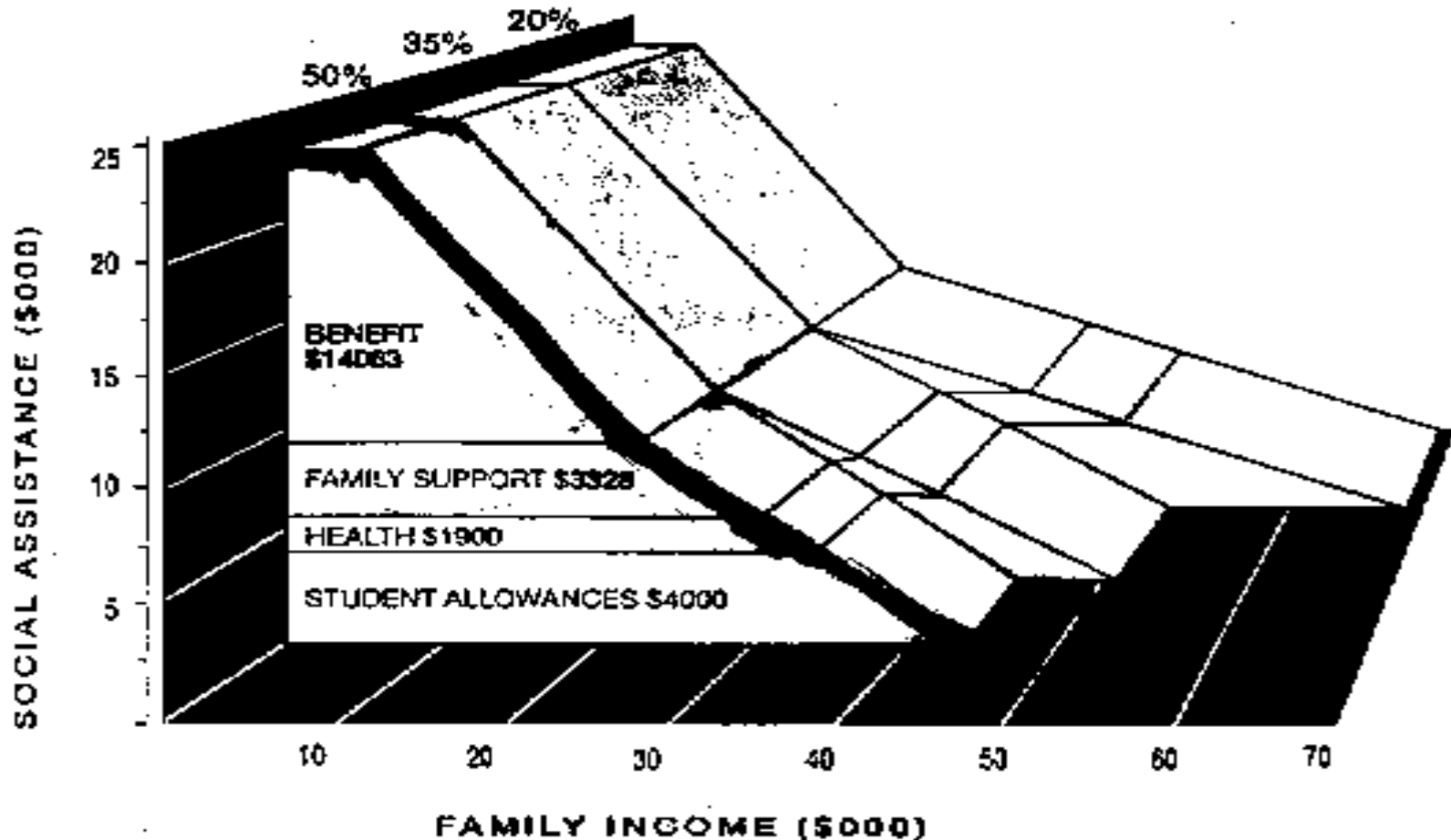


The EMTR problem (1)



The EMTR problem

COUPLE WITH CHILDREN



Reforms with smart card fanciful and did not work

- The smart card was to 'overcome' the problems of overlapping abatements
- Its abandonment undermined the whole rationale for the user pays approach
- Left with the welfare mess/overlapping income tests including the bits for students and their parents.
- Cumulative effects on the distribution of wealth, income and advantage.

Equity concerns with student loans in 2012 are around

- Growing inequality
- Intergenerational fairnesses
- Entrenchment of poverty
- Cyclical issues of unemployment
- Mass emigration of young

How does the Student loans scheme reinforce inequality

Taking the counterfactual as higher more progressive taxes/ broader base/ modest fees/ less targeting

- Top group enjoy full access and compound their gains-
- Middle group just survive, some OK
- Lower group sink in cumulative disadvantage

Compounding effect on wider disparities in society

Compounding disparities

- Better off families
 - More likely to assist in a variety of ways
 - Less debt accumulated
 - Less time in debt- high earnings
 - Benefit from interest free loans
 - Early repayment discount
- Less well-off families
 - Debt may never be repaid
 - Overhang problems
 - Repayments may entrench poverty
 - Debt stunts choices for future
 - May have little human capital
 - Limited employment opportunities

Are we in breach of our binding international agreements?

UNCESCR

“Higher education shall be made equally accessible to all on the basis of capacity, by every appropriate means and in particular by the progressive introduction of free education”

“NZ has been moving in the opposite direction for almost a decade accordingly it is breaching its international treaty obligations” Boston, 1999, p 207

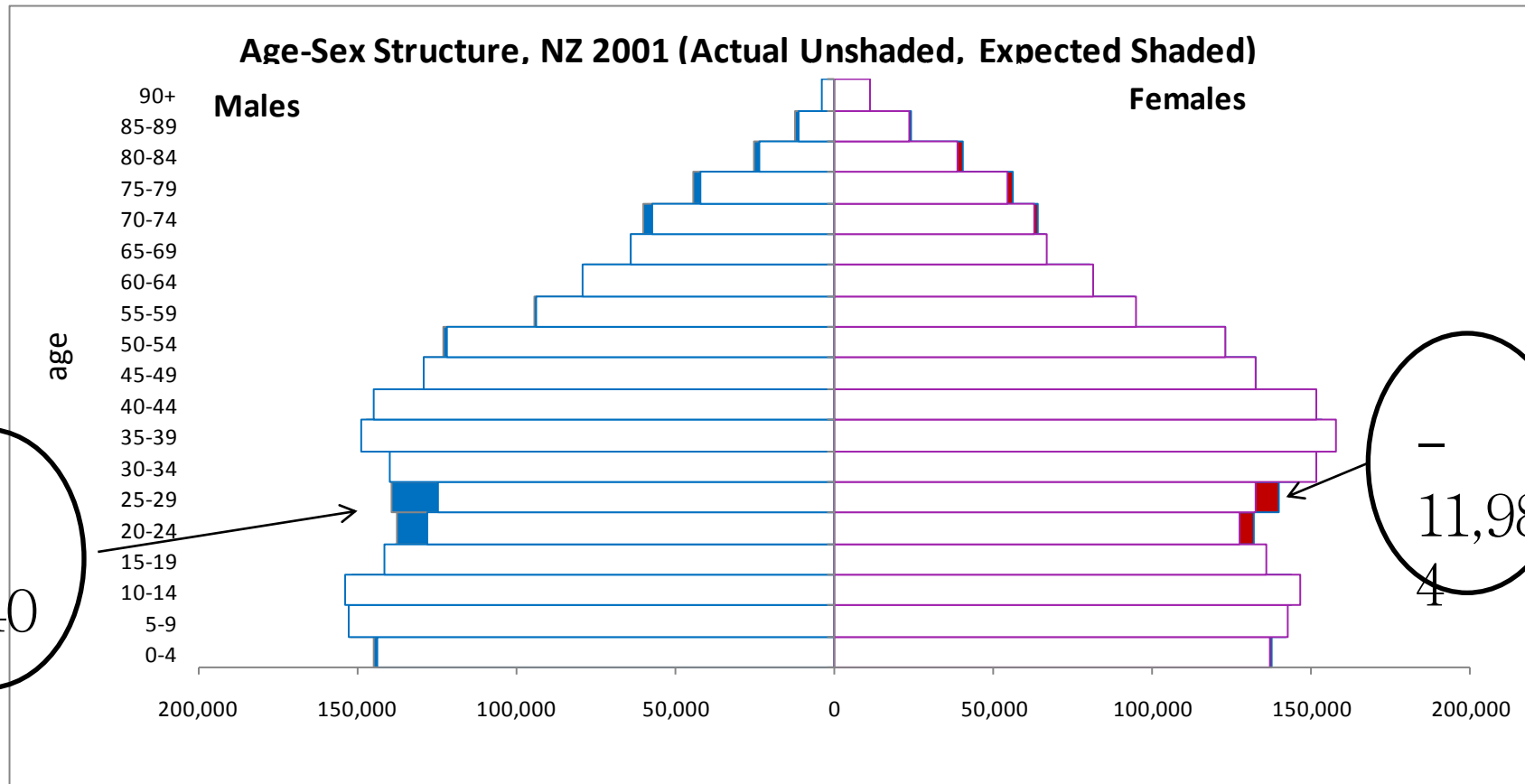
We are stuck with

- A not very progressive income tax
- Regressivity ***reinforced*** by GST and repayable loans and borrowing for living costs
- Wide earnings disparities
- An adverse demographic bite
- \$12 Billion “asset” on the balance sheet

Intergenerational fairness

- Much more appreciation of unfairness by the young
- Baby-boomers had almost free education now enjoy universal pensions **and** low tax and made a killing in the property market
- Leading to loss of the 20-29 year old group and the demographic bite- Natalie Jackson

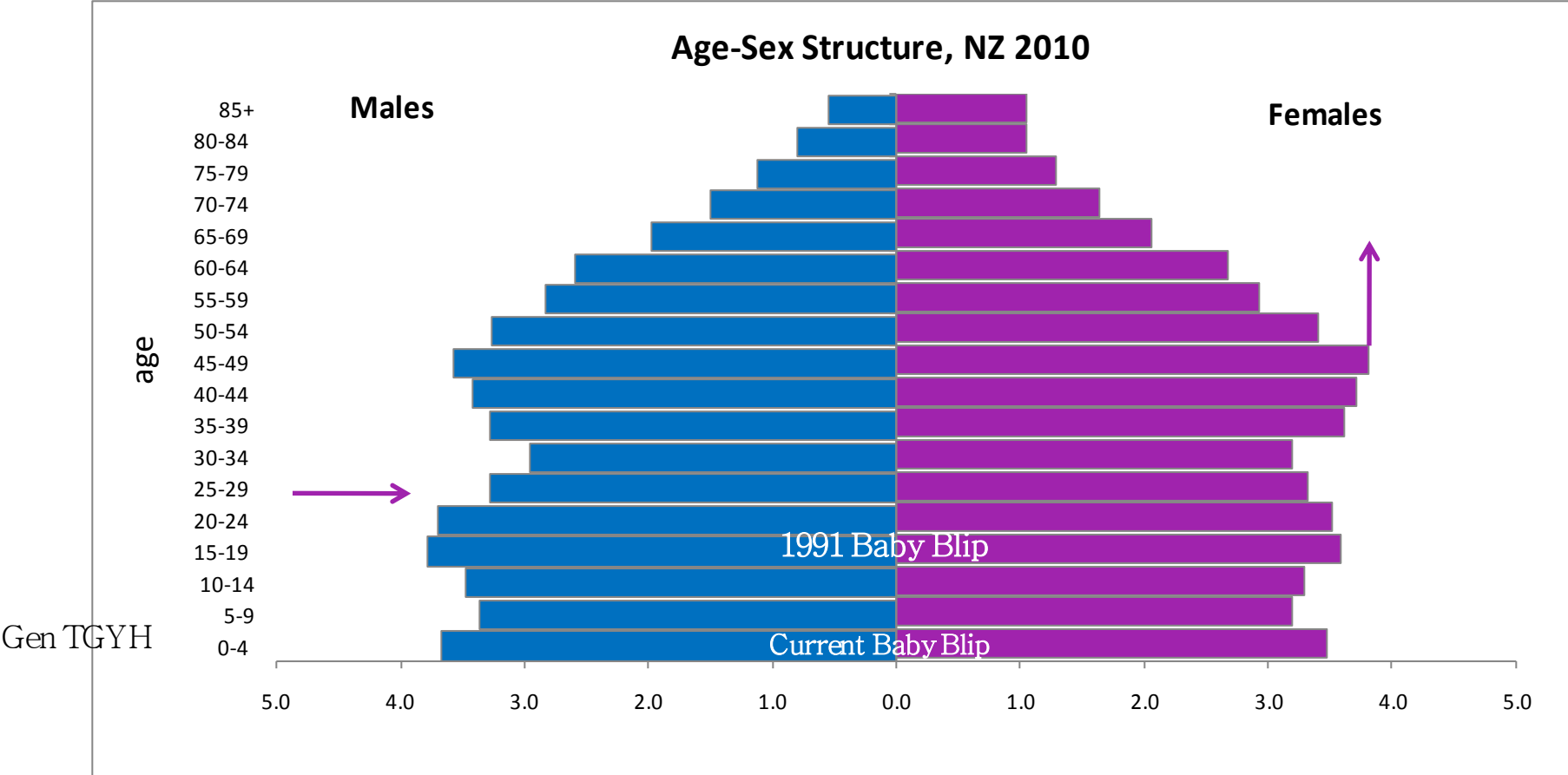
Actual versus Expected 1996-2001



Source: Jackson applying cohort survival method to Stats NZ census data 1996 and 2001 (-36,386 at 20-29 years)

Who you
'gonna call?

The result today – a deep 'bite'



Coupled with double-duty dependency across next 15 years

The \$12 Billion loan is not an asset for New Zealand

NZUSA

**“Student Debt is
Bankrupting
New Zealand”**



The \$12 billion is very peculiar asset- shifts
affordability issue from taxpayers to students

- Lending to students has the same fiscal impact as direct spending
- Instead of spending directly on education and making government spending /GDP look bigger- the policy enabled bigger surpluses to be generated.
- Surpluses led to tax cuts,
- Government is now borrowing to both lend to students and to fund more tax cuts
- Each dollar lent 'costs' 44.7 cents

We made the bed...

A change in any one part of the system affects many other parts.

- Take the freezing of the threshold for loan repayment at \$19,084

Someone on the DPB- gross benefit = \$17212

- Earn \$100- tax and repayment= 29.5%
- \$100-200 =59.5%
- **Over \$200 =99.5%**

Freezing the parental income threshold

“Freezing the threshold at current levels is the first step in curbing the major expenditure increase in student allowances over the last few years as we look to better target this support to students who need it most,” Mr Joyce says.

- EMTR when a parent is on \$55,000
= 19.5 + 20 + 10 + 25 + ...
- Who is affected by freezing?
 - Those on the cusp. Get a 2% rise of \$1000, no better off in real terms but then lose \$250

Student loans: some concluding thoughts.

- Irreversibility of the pact
 - Too entrenched
 - Too many winners and losers
- **Policy now should focus on moderating unfairness and high EMTRS**

Moderating the unfairness

- Don't freeze thresholds
- Make allowances less targeted
- 10% repayment too high at too low a threshold
 - Australia better
- Why GST on fees?
- Reinstate TIA
- No debt repayment while on a benefit

Above all

**Listen to the rising tide of generational
discontent**