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Chapter 2

Student fees and allowances: The case for cost recovery

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ABSTRACT
In this chapter we provide a detailed of the issue of user charges by examining the increases in fees and targeting of student allowances. In particular, we examine the nature and extent of targeting and user charges, and provide a critical assessment of the rationale behind these strategies.

Introduction

In the previous chapter we attempted to show that much of the legislation embodied in the State-Owned Enterprises Act 1986 had been reflected in legislation pertaining to universities since 1989. In other words, we argued that the 'corporatisation' of universities had been largely achieved. Corporatisation, to summarise, is designed to make state institutions function as much as possible like business corporations. In general it involves implementing the following strategies:

- User charges;
- Quantitative accountability mechanisms;
- A private sector industrial relations policy;
- Competition.

In what follows we provide a detailed of the issue of user charges by examining the increases in fees and targeting of student allowances. In particular, we examine the nature and extent of targeting and user charges, and provide a critical assessment of the rationale behind these strategies.

User pays in New Zealand universities

User pays in New Zealand higher education became the centre of national attention when the fourth Labour Government, following the recommendations of the *Hawke Report* (1988), proposed to increase student contributions to university funding. Two reasons were provided for increasing tuition fees. First, it acknowledged the so-called 'private' benefits received by graduates. Second, it was seen as a means by which 'equity' could be achieved, principally by enabling more people to participate in higher education *(Learning for Life II,* 1989: 14). The disincentive effect of the increased fees was to be offset by a student loans scheme.

Because of fumbling by the Government and a successful campaign by the NZUSA to discourage banks from involving themselves in the loans scheme, an up-front fee of $1300 (an increase of about 800% from the previous year) was introduced in 1990. This increase, however, did not affect all students. Long term social welfare beneficiaries, 16 and 17 year olds, and those with dependents and a low income spouse were, in addition to a number of other groups, eligible for a 90% reduction on the standard tuition fee. Postgraduate students undertaking research degrees attracted a 40% reduction. At the same time the universal student allowance was abolished and replaced by a targeted system. Under this new system, the level of allowance was set according to a sliding scale based on parental income. Students 21 years and over, however, continued to receive a non means-tested allowance.

In relation to the present fee structure, however, it is the combined reports which make up the *Tertiary Review* (1991) which appear to have had the greatest influence in the setting student fees and allowances. The section on the level of state subsidy in the *Tertiary Review (Pt2,* 1991) begins its discussion with a consideration of advice to the Government that would have seen student fees rise to 50% of course costs. This degree of cost recovery was rejected on the grounds that many people may not recognise the long term (personal) benefits of education and may therefore be discouraged from participation in higher education. Furthermore, it was noted that unless the public could be persuaded that education is a personal investment rather than a right, there may be adverse public reaction to any price increase *(Tertiary Review,* Pt2, 1991:34).

Nevertheless, an extension of user pays is recommended in the *Tertiary Review* (1991). In particular, the 'preferred' option is one where tuition fees be increased from 10% of course costs to 20%. Such a policy, according to the Tertiary Review Group, would render savings of $93.3 million dollars or $121.7 million per year if postgraduate students were included *(Tertiary Review,* 1991:56). An additional $125 million per year could be saved, it was noted, if the targeting of student allowances was extended from students 20 years and under to those 25 years of age *(Tertiary Review, Pt2,* 1991 :72). The Tertiary Review Group (1991) also recommended the introduction of a fee structure which would reflect the actual costs of individual courses. In order to reduce the disincentives of higher tuition fees, two financing options were favoured: Government guaranteed bank loans or a deferred fee system where a graduate tax is collected by the Inland Revenue Department.

The Minister of Education, as part of the 1991 budget, made a commitment to implement the recommendations of the Tertiary Review almost to the letter. The means-testing of student allowances was extended to those aged 25 years and whose parents earned more than $28,000 per annum. Those students aged 21 years and below, however, became eligible for Study Right assistance in the form of a three year 95% tuition subsidy. Non Study Right students attract a 75% subsidy (to be fully phased in by 1994) or 95% if engaged in full-time research for a degree.

While the exact levels of fees are set 'competitively' by each tertiary institution it can be said that 16 and 17 year olds, 18 year olds from low income families, mature students, and some graduate students, were hit with significant fee increases when the scheme was introduced in 1992. It should be noted, however, that while some universities have adopted a fee structure which varies according to the cost of individual courses and Study Right eligibility, others have adopted a 'flat fee' structure whereby course costs are averaged and charged at a single rate. Nevertheless, by 1994 tuition fees will increase, on average, to a level well above that set by the fourth Labour Government, despite the pre-election promise made by the National party to the contrary.

The level at which fees are now set has made a loans facility essential. Under the scheme introduced by the National Government, students can borrow funds for living allowances (if they are not eligible for Government funding), course costs, and tuition fees. Those who take out loans pay interest (at present, 8.2% per annum) and repay them as 10% of the income they earn above $13,104. The legislation which covers assessment and collection of loan repayments by the Department of Inland Revenue was introduced late in 1992 as the Student Loan Scheme Act.

Despite the big increases in tuition fees, some in the National Government appear firmly wedded to the idea that students should pay all of their university costs. The Minister of Customs, Morris McCully, stated recently that the current loan scheme should be expanded to fund the total cost of tertiary education. For students undertaking dentistry- the most expensive course available - this could result in debts of up to $230,000. McMully, and other like-minded politicians will no doubt take heart from the recent *OECD Economic Survey* (1993) which advocates the further decreases in tuition subsidies. What this means effectively, is that future increases in tuition fees cannot be ruled out.

An assessment of the case for cost recovery

The fact that many countries around the world are imposing more of the costs of a university education onto students suggests that arguments for user pays have considerable appeal. Some of this appeal, not doubt, is due to the sheer number of arguments that have been marshalled in favour of user pays. The first argument for user pays, and one which is most popular and apparently self-evident, is grounded in the ideal of fairness or equity. A system can hardly be fair if it charges one group of people (in this case, 'tax payers') for the benefits accrued by another group of people (university students). If students are getting the most benefit from their education then they, not the public, should pay *t* r it. This argument is often accompanied by the notion of 'middle class capture' (New Zealand Treasury, 1987: 17) and is used to justify means testing of tuition fees and living allowances.

The strength of this position lies in the assumption that tertiary education has little to offer by way of benefiting those not undertaking study. However, critics (eg., Boston, 1988) have noted that this approach ignores the external benefits of higher education, such as an informed populace, the preservation of democratic institutions and the transmission of culture. *The Tertiary Review*: (Pt2, 1991: 13) counters this common criticism of user pays by arguing that while tertiary education has these characteristics, it is not generally a public good in the 'technical sense.' The *Tertiary Review* (1991) defines a public good as those products or services which satisfy the 'non-rival' and 'non-exclusion' principles.

The non-exclusion principle concerns the inability to restrict consumption of a good by all once it exists. The non-rival principle is satisfied when consumption of the good by some does not reduce the quantity available for others *(Tertiary Review,* 1991: 81). It is argued that since there is rivalry in consumption and that it is possible to exclude free riders from higher education it cannot be a public good. This view, however, ignores the major role of universities as producers and disseminators of knowledge or information. Adele Carpinter in her recent publication, *Managing Data, Knowledge and Know-How* (1991) makes what we think is a very good case for treating information as a public good despite the fact that she adheres to the overly narrow 'technical' meaning of the terrri. Once information is disseminated, as lecture notes, research monographs, memory traces etc., it is impossible to contain since it can be duplicated and passed on *ad infinitum.* This satisfies the non-exclusion principle. Furthermore, knowledge can be consumed by a potentially infinite number of people without reducing its informative value.

In any event, since many of the external benefits of tertiary education are unquantifiable it is impossible to calculate what proportion of the costs students should pay. It is at this point that the attempt to impose costs according to a ratio of public to private benefit collapses. Certainly, this much is conceded by the Tertiary Review Group (Pt2, 1991: 14) who state that:

> an economic analysis of the private and public benefits of education provides Ministers with little guidance with regard to apportioning the costs of tertiary education, other than to suggest that students should make some contribution to these costs on efficiency grounds.

The first 'efficiency' argument in the *Tertiary Review* (Pt2, 1991: 16) is based around the rather bizarre idea that a fully subsidised system means 'that everyone has a right to an unlimited amount of education at the state's expense' and that user pays will somehow deter students from becoming over-educated. Apart from the difficulties or desirability (given our comparatively unskilled workforce) of defining a student as 'over-educated,' it should be noted that prior to 1990, the state did not pay a full living allowance to students. This perhaps explains why so few people (if any) were ever 'permanent' students. User pays, therefore, can hardly make things more efficient in this area than they already are.

The next efficiency argument centres on the idea that fee paying students will become 'more discerning and critical customers' who are more likely to put pressure on institutions to decrease costs and improve quality *(Tertiary Review,* Pt2, 1991: 31). This pressure, however, presupposes an environment of competitive neutrality which forces institutions to either respond to student demand or to risk loosing them to other institutions. Competitive neutrality, however, would require the duplication of expensive and sophisticated equipment, the cost of which would ultimately be passed onto the 'consumer' or the tax payer. Ensuring greater quality from the point of view of the 'consumer' would surely be cheaper, more direct and more effective simply by giving students more representation or powers at the level of the university councils or academic boards.

Questions should also be raised about the promise of quality under a user pays system. Even if a high degree of competition could be established, it is doubtful that this will enhance or even protect the existing quality of university education. During the period 1975 to 1986, funding per student fell by 27% in real terms *(Watts Report,* 1987:19) and has fallen even further in recent years (Scott, 1990). In fact the effects of funding cuts and increasing staff to student ratios have reached a point where questions must be raised about the extent to which quality can be sustained in the face of stretched resources. As the Vice Chancellor of the University of Canterbury noted in a letter to the Minister of Education in 1989:

> A number of departments have not been able to sustain seminar and tutorial support at a level warranted by the needs of the students. In some areas this reflects the workload of academic staff; in others it stems from financial constraints on hiring graduate students and outside assistants.

It is doubtful therefore, that competition will generate further savings without compromising the service to students. The next argument for user pays is based around the idea that the education system is not doing enough to cater for the needs of the labour market (eg. Smith, 1991: 1). User pays will remedy this situation, it is argued, by inducing students to take account of labour market 'signals' when they choose which courses they will take (*Treasury,* 1990: 136- 137). In other words user pays is conceived as a demand side strategy to make students more responsive to the needs of industry. On the supply side, funding by EFTSs is designed to make institutions more responsive to the newfound needs of students. Presumably, if universities do not respond to the market (student demand), they will be disciplined, like enterprises in the private sector, by a reduction in revenue as students seek out alternative providers.

The underlying assumption here is that it will lead not only to a more efficient, responsive university but to a more efficient economy. Such an approach, however, could easily lead to crises of 'over-production' (too many lawyers, accountants etc.), for which market economies are especially susceptible. It could also lead to an education system which provides people with narrow, technical training and discourages retraining at a time when reskilling and flexibility in the use of skill are increasingly required. Furthermore, evidence from Sweden suggests that the introduction of cost recovery has led to a massive reduction in post-graduate research training (Springett, 1986: 10-12). If successful economies require strong research and development programs then user pays. may well hinder economic recovery.

User pays has also been touted as an incentive for students to apply themselves in their studies *(Tertiary Review,* Pt2, 1991 :31). First, it should be noted that no research evidence is ever cited to support this assumption. In fact, it could be argued that imposing a greater financial burden upon students could impair their performance. Students already have significant financial pressures for passing their courses in minimum time. The high levels of stress caused by the existing pressures of university assessment combined with an even greater financial burden could increase cases of acute anxiety and ill health in the student population. Indeed a recent survey shows that the amount of debt per student has risen from $1674 in June 1991 to $2826 in April 1992 and, not surprisingly, that many students are experiencing stress and financial difficulties as a result (Greenslade & Lamb, 1992:37, 48).

Once the ideological rhetoric has been dispensed with, one is left with a more pragmatic argument which emphasises the need for student contributions to fund extra places in higher education. However, such an argument can be objected to on two counts. First, the revenue accumulated from such an exercise may not be as much as expected. This is because the administrative cost is likely to be high and the Government will have to write off debts both for defaulters and those whose income does not reach the critical level. Evidence from West Germany and the U.S.A. shows that only about a quarter of loans are paid back in full. Second, Swedish research has shown an 11 % reduction in enrolments following the introduction of their loans scheme (Springett, 1986:9). User pays, therefore, may even discourage participation in tertiary education, particularly at the level of postgraduate research degrees where debt really begins to mount.

More disturbing, perhaps, is the fact that those with working class backgrounds made up a large. percentage of those opting out of tertiary studies (Springett, 1986). This does not sit well with the stated concern of the New Zealand Treasury (1987) and the *Tertiary Review* (1991 :32) over the middle class capture of university education and the under-representation of disadvantaged groups. While research which investigates the effects of user pays on working class students has not yet been conducted in New Zealand it is known that the pattern which saw student enrolments substantially increase each year was broken in 1990. Student enrolments decreased in 1990 by 0.4% (Patterson, 1991) with part timers and mature students appearing to be those most adversely affected (Stocks, 1990:21).

Conclusion

The introduction and extension of user pays, along with corporate planning, competition, and a new industrial relations framework, is a logical consequence of adopting the view that universities are or should be commercial enterprises that serve the needs of industry and of individual consumers. In 1990 tuition fees increased from about 1.5% of the cost of an average course to just under 10%. At the same time, the targeting of living allowances for students under 20 years of age was introduced. In 1992 targeting was extended to students 25 years and under. A further increase in tuition fees is to be fully phased in by 1994.

At face value recovering the costs of a university education from students seems a sensible option. One of the main arguments for user pays is that it reflects the private benefits received by those who undergo higher education. We believe, however, that university education is a public good in both the technical and broader meanings of this term. Other arguments for user pays suggest that it will bring about efficiency, responsiveness, increased student performance and quality in tertiary education. In this paper we have argued that there are good grounds for questioning these assertions.

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