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### **Universal Student Allowances: Another Election Bribe?**

Last month student union representatives called on a prominent university vice-chancellor who spoke against a universal student allowance to broaden his sights.

The vice-chancellor should “look to what is best for the whole of New Zealand's future, rather than narrowly focusing on his own little patch in Auckland today”, the students said. The irony astounds!

We have here an important issue of public policy: what funding arrangements for tertiary education are in the overall public interest, as opposed to the special interests of student associations or tertiary providers?

Currently tertiary students receive large amounts of government assistance: through subsidies for tuition fees, the subsidised student loan scheme, and student allowances for living costs.

Having benefited from the costly 2005 election bribe which made student loans interest-free while students are studying or living in New Zealand after graduation (which the National Party has promised to make even more generous with an early repayment subsidy), their representatives have set their sights on making student allowances, which are currently targeted on parental income if the student is under 25 (24 from 2009), payable on a universal basis.

Recently the minister for tertiary education, Pete Hodgson, asked the Ministry of Education to cost a universal allowance. The answer is a massive \$728 million annually. Is this another election bribe in the making?

What do public policy principles suggest about this issue?

One set of arguments concerns the relative public and private benefits of education.

It is generally acknowledged that the public benefits of education – in the form of literacy, numeracy and social values that are important for a functioning society – are greatest at the early stages of education. At the tertiary level, more of the benefits are private and higher private contributions are justified. To be sure, higher levels of skills are conducive to higher economic productivity, but graduates capture the benefits in the salaries they command.

Another set of arguments concerns equity or fairness. Tertiary students typically come from better-off backgrounds and go on to earn higher than average incomes after they graduate. The money for student funding comes from other taxpayers, many of whom are less well off. Student assistance is often a case of middle class welfare – a transfer from poor to rich.

The key economic argument for public assistance to tertiary students relates to their inability to borrow on a commercial basis to finance their studies. Income contingent loans are an appropriate response. Concessional loans and universal allowances are not justified on this ground. The public (as opposed to private) benefits of higher education should be recognised through tuition fee subsidies, not concessional lending.

OECD figures show that New Zealand spends much more of its tertiary education budget on student assistance than similar countries (44 percent in New Zealand; 35 percent in Australia; 24 percent in the United Kingdom; 19 percent in Canada; 18 percent in the United States). The United States, incidentally, is generally regarded as having the best university system in the world.

These figures pre-date the last interest-free loans decision. With other countries putting more emphasis on user-pays policies, New Zealand will stand out even further today.

There is a further consequence of this unbalanced policy. The institutions that teach students are being squeezed for resources – funding is down

from \$10,932 per equivalent full-time student in 1991 to \$9,098 in 2006 (in constant 2006 dollars).

Institutions have also been squeezed by the government's cap on tuition fee increases – a form of old-fashioned price control.

A universal student allowance would only further constrain the funds that institutions need for salaries to attract and retain top-flight academic staff, finance cutting-edge research and support linkages with the private sector.

It is not as though overall government spending on tertiary education in New Zealand is niggardly by world standards.

It amounted to 1.5% of GDP in 2004 (above the OECD average of 1.3%) and represented 4.9% of total public spending, second only to Norway and well above the OECD average of 3.1%.

At best, student associations represent the interests of their current members (at worst just those of their executive). They do not represent the interests of future students, who will be harmed by a decline in the quality of New Zealand's tertiary education, still less those of the public at large.

Vice-chancellors and other leaders of tertiary institutions do not like upsetting their student bodies and are often silent on these matters.

This is not good enough. We ought to be able to look to academic leaders to speak out on what is in the overall public interest rather than the special interests of current student association leaders.

Increasing government spending to pay for a universal student allowance would help a small group of people today but could severely compromise the future of New Zealand and its citizens – graduates and non-graduates – in the years to come.

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