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The Minister of Finance has requested advice as to whether a policy of providing fees-free university education to Maori students, Pasifika students and those students from low socio-economic backgrounds (collectively referred to as “priority learners”). As of 2013, 8.6% of the 18-24 year old age group were not in employment, education or training, this reflects a significant burden on future government finances if these students are not upskilling (Ministry of Education, 2014, p. 11). The proposed policy removes one of the cost barriers for groups who are underrepresented at the university level to enable them to more easily access a university level education. This report assesses the costs and benefits of such a policy and suggests other options for consideration.

The Living Standards Framework

The Government is fiscally constrained and hence must ensure that resources are best placed to achieve the highest returns. It is focused on improving living standards for all New Zealanders and lifting economic performance through building financial and physical capital, human and social capital whilst balancing interests relating to natural capital.

The framework focuses not only on increasing income and wealth but ensuring a fairer participation in positive economic outcomes across all socio-economic groups, amongst other things. To achieve improved economic performance and living standards requires improved labour productivity and more value being added to products and services through innovation, creativity and the application of knowledge. Qualifications particularly at the tertiary level are a key driver of economic performance, as well as being a key determinant of improved income and workforce participation (The Treasury, 2011, p. 18).

Performance of Priority Learners

Across developed countries, research shows that earnings are increased between 5% and 15% as a result of an extra year of education (State Services Commission, 2013). Graduates and their families also benefit from a range of other positive social outcomes. To date, achievement rates for Maori and Pasifika (and other priority learners) are less than the rest of the population, leading to higher unemployment rates, lower incomes and disparate participation in economic benefits. In 2010/12 12% of Maori and 12% of Pasifika attained a bachelor degree by 25 years of age compared with 34% non-Maori/ Pasifika (Ministry of

Education, 2011, p. 8). Other priority learners are likely to have similarly poor achievement levels.

For Maori and Pasifika learners, the issue is not one of participation at tertiary level, but participation at degree level education. Education Counts, a publication of the Ministry of Education, states “that the Māori participation rate in tertiary education has increased by 5.9% since 2001 and Māori currently participate in tertiary education at a much higher rate than non-Māori”. ... 14.6% of Māori aged 15 and over participated in tertiary education in 2012 ...European/Pākehā (9.7%), and Pasifika (11.4%).” They further state that “when broken down by level of study, Māori currently have substantially higher rates at non-degree level, while non-Māori participation rates are highest at degree level and above” (Education Counts, 2013).

Proposed Policy – Fees Free for Priority Learners

The proposed policy, removal of student fees for priority learners, would remove a disincentive for undertaking tertiary study, the cost barrier. The intent of the policy is to incentivise priority learners to enrol in Bachelor qualifications at university. A fees free policy has been successful in attracting students at the Southern Institute of Technology and the Open Polytechnic, and is consistent with the Government’s Better Public Services objective of boosting skills and employment.

The question is whether cost is a barrier to study. Priority learners, as with all students, have access to student loans. Student allowances are also available to students from lower socio-economic backgrounds. These are provided by Government to ensure all learners have access to a university education. A number of other scholarships and grants are also available from universities, not for profit organisations and the private sector.

Some evidence exists that lower income families are adverse to debt and will not borrow for tertiary education (McLaughlin, 2003, p. 54). Hence a fees-free policy would remove the requirement for the priority learner to take out a student loan for this component of their study. They may however, have other costs which they are required to pay, and hence a fees-free policy may not totally remove the necessity for a student loan.

Financial Costs of Policy

The policy will have a financial significant cost. There are three components of cost that should be considered – the direct costs of the policy, the costs to the system and hidden costs of unintended consequences.

- (i) Direct financial costs - The Government will assume costs relating to new learners but also costs that are presently being paid by existing priority learners. There is no way to discriminate between priority students whom are prepared to pay fees and those where fees may be a barrier to enrolment. Hence the cost will be significantly greater than the marginal cost of those learners whom are presently not prepared to take a loan.
- (ii) System costs – The Government may also need to pay universities for additional places at university. It may also need to provide additional funding for support for priority learners.
- (iii) Hidden costs - If the policy was successful in switching priority learners to bachelor degree study at university, the financial effect on other parts of the tertiary system (Institute of Technology, Polytechnics and Wananga) would need to be considered. Significant switching may place the non-university parts of tertiary sector at risk financially, as cost reduction is likely to be immediately required to mitigate the effect of the loss in revenue. It is important to note that some tertiary institutes offer bachelor's degrees and are focused in particular on priority learners. For example, Maori achievement rates may be undermined by a policy which directs them to a university environment which is debatably less supportive than wananga or other tertiary institutions. Vocational and applied technology areas, as well as qualifications from wananga are as important in enhancing economic growth as achievement of qualifications in the university sector. Therefore, the Government's priorities may be undermined if priority learners are switched from areas where they are achieving, to areas where they are at risk of failure if other support mechanisms at university are not also put in place.

Other Considerations – Perverse Incentives

The following must also be considered in determining whether the policy is likely to be successful:

Incentives - Students

A general fee-free policy may create perverse incentives for potential priority learners, encouraging students to enrol, but not complete the course. This is because the learner has not invested personally in the outcomes of their education as much as if they had committed financially. With non-completion the government loses its investment in the student and the student may possibly be denied access to further education in the future (student loans are denied to students whom fail to pass).

Incentives – University Level

Increased demand for university places may lead universities to restrict enrolment of students. Most universities already have entrance standards above that of university entrance (NCEA Level 3) and students not meeting that criteria will not gain enrolment (University of Auckland, 2014).

Weak incentives exist for universities to enrol students whom may require additional support to pass. Support is costly and without additional Government funding, would impose a cost on universities which is not compensated. Completion rates are also in the public domain and reputation may also be put at risk if students fail to complete.

Policy Evaluation

If higher living standards are to be achieved, then the Government must ensure that its expenditure is placed in areas that achieve the highest returns. A general fee-free policy for all priority learners (regardless of age, etc) only targets one of the factors (access) which affects successful participation of priority learners in the economy. It is likely to be costly and unlikely to generate the required enrolments unless other parts of the education system are addressed.

Each part of the education system is important in preparing learners for the next stage. Primary and secondary education should prepare all students for tertiary study. Tertiary study must prepare students for life through development of skills and knowledge to enable

them to enter the workforce. From there education allows mature learners to reskill to meet future demands. The schooling system presently fails to prepare many students, particularly priority learners, for tertiary level education. For those students who do enrol at university, many fail to complete. For those students who do complete, many fail to enter the workforce in suitable roles, and are left with debt burdens which substantially restrict their life choices and reduce their quality of life. All these factors contribute to the failure to achieve higher living standards for all New Zealanders.

Other Options

All parts of the tertiary education system must be strengthened to maximise the return on the government's investment in education. If a living standards approach is adopted then funding should be made in the areas where there is greatest return:

Hence policies to improve priority learner outcomes should target:

- (i) Making school leavers “tertiary- ready” and therefore providing the greatest chance for successful qualification completion. These policies have to be focused at school level.
- (ii) Supporting students through tertiary study – increasing support systems at university level.
- (iii) Focusing students in courses that will provide a high return to them and fulfil demand for skills from employers.

There must be successful transitions for priority learners from secondary education through university education and into the workforce. These aspects are further discussed below:

Tertiary -Ready Learners

The first key target area is ensuring that priority learners have the prerequisite skills needed in order to be able to achieve at the university level. Incentives for universities and secondary schools to collaborate around skills development and support may be necessary. As noted, smooth transitions are important for learner success.

For example, if the government provided a funding boost to the priority learner's secondary school when they successfully complete a bachelors degree, schools would be incentivised to not only prepare priority learners for university, they would also encourage priority learners to undertake undergraduate degrees. Over time this would increase the appeal of higher education amongst priority learners and their families.

University Support

Universities need to be incentivised to align their interests more strongly with Government policy. Some actions may only require signalling, others may require funding and penalties for significant non-performance.

For some priority learners, universities may be a foreign place compared to wananga and other institutions. Universities should be encouraged to engage with students using the principles of whanaungatanga, moving away from the traditional academic environment of individualism (Curtis, Reid, & Jones, 2014, p. 155).

Similarly, sharing of innovative practices across universities and other parts of the education system may support the implementation of new practices around priority learners e.g. the creation of relational networks and the establishment of collective responsibility for a student's educational success. This would create a community of support within the university for priority learners.

Finally, the transition from study to work allows the student and wider society to be rewarded for their investment. Thus, effort must be made to ensure priority learners actually apply their skills in the workforce. Universities should engage with industry early within the degree program, partnering with employers to ensure they are relevant. This would allow priority learners to extend their relational networks beyond study increasing the likelihood of employment after degree completion.

Incentives could also exist for universities by way of additional funding for all priority learners whom successfully complete their qualification and find employment in areas of high Government priority e.g. Christchurch rebuild, technology, science etc. This would align university incentives both towards completion but also labour force participation. Hence transition from university to the workforce would also be facilitated.

Conclusion

The proposed policy only removes one barrier to university participation and is not likely to achieve the outcomes required unless there is strengthening of delivery in other parts of the education system. The government should look to invest in degree completion not degree initiation, therefore emphasis must be placed on supporting priority learners to be tertiary-ready and on the skills and support necessary to ensure successful completion whilst at university. Only through degree completion and transition to employment will priority learners gain the skills and knowledge needed to provide a significant economic return of the government's investment.

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