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Word count: 1952

Introduction

There are few decisions that have a bigger impact on a younger person's life than their decision to study at university, especially as the global economy becomes more knowledge intensive. University education has been shown empirically to have both economic and social benefits. The difference between the median annual earnings one year after study of a high school leaver and a Bachelor's degree holder in New Zealand is \$12,000.¹ Five years after study, this difference widens to almost \$16,000.² Overseas, Bachelor's degree holders have been found to be less likely to smoke³ and go to prison in later life.⁴ They are also more likely to volunteer in their community⁵ and vote.⁶ Despite these benefits, students of low socio-economic status (SES),⁷ and those from Māori and Pasifika backgrounds are underrepresented in universities (hereafter referred to as 'priority groups').⁸

This essay evaluates the policy to make Bachelor programmes fees-free for priority groups. The Treasury's Living Standards Framework provides a useful tool to evaluate this policy and also develop alternatives. The two dimensions of the framework, increasing equity and economic growth are most helpful. As this essay explores, while improving access to tertiary education is an important first step, improving tertiary education outcomes is also important. This involves understanding why students do not complete degrees and what can be done about improving this. Arguments are also made about the role of primary and secondary school in preparing young people for university. In-depth interviews carried out with Wellington region

¹ Park, Z., Mahoney, P., Smart, W., & Smyth, R. (2014). *What young graduates earn when they leave study* (Ministry of Education, Wellington, New Zealand) at 4.

² Ibid.

³ Baum, S. & Ma, J. (2007). *The Benefits of Higher Education for Individuals and Society* (College Board, Washington) at 19.

⁴ Ibid, at 20.

⁵ Ibid, at 22.

⁶ Ibid, at 23. See also Dee, T. (2004). Are There Returns to Civic Engagement? *Journal of Public Economics* 88: 1697-1720 at 1699.

⁷ Socioeconomic status is difficult to define precisely. For the purposes of this essay I consider students of low SES to be from low income families (below \$84,000 combined household income in line with the Studylink allowance threshold) with parents or caregivers unlikely to have university education.

⁸ OECD (2013). *OECD Economic Surveys: New Zealand*. OECD Publishing. Retrieved from http://dx.doi.org/10.1787/eco_surveys-nzl-2013-en.

businesses suggested that young graduates are increasingly unprepared for knowledge work.⁹ It follows from this research that there may be more room for universities to play a role in preparing students for working life.

Background

One of the key issues facing modern New Zealand is how to drive economic growth in ways that lift all New Zealanders' living standards. This is expressed clearly in the Treasury's Living Standards Framework.¹⁰ Closing the continuing SES disparities is a key priority in New Zealand today, especially differences between Pakeha and Māori and Pasifika groups. Priority groups are much less likely to have a university education. Empirical evidence, discussed further below, shows that factors beyond the cost of university are driving this.¹¹ The OCED reported that rates of Māori and Pasifika with a university degree were low at 6.2 and 4.9 per cent respectively. This compared with an overall average of 14.2 per cent.¹² It follows that participation rates at university are also lower. Māori and Pasifika people under the age of 25 have participation rates of 16 and 19 per cent respectively, below the overall average of 23 per cent.¹³

Currently, most New Zealand universities offer equity scholarships to academically able students in priority groups. For example, Victoria University of Wellington awards 70 scholarships worth \$5000 to go toward the first year of a priority group student's study.¹⁴ It is also now common place for universities to provide additional study support and monitoring of priority groups via liaison staff.¹⁵ There is little empirical evidence on the success of these

⁹ Norman, R. & Oakden, J. (2014) *Wellington's knowledge economy – coming to grips with technology change*. (Victoria University of Wellington, Wellington, New Zealand) at 16.

¹⁰ Treasury. (2014). *Higher Living Standards*. Retrieved from <http://www.treasury.govt.nz/abouttreasury/higherlivingstandards>

¹¹ James, R. (2002). *Socioeconomic Background and Higher Education Participation: An analysis of school students' aspirations and expectation*. (Commonwealth of Australia, Canberra, Australia) at x.

¹² OCED, above n 7, at 119.

¹³ Ministry of Education. (2014). *Tertiary Education Strategy*. At 13–14. Retrieved from http://www.minedu.govt.nz/~media/MinEdu/Files/EducationSectors/TertiaryEducation/TertiaryEducationStrategy2014/MOE_TES2014_V9.pdf

¹⁴ Victoria University of Wellington. (2014). *Victoria Achiever Scholarships for School Leavers*. Retrieved from <http://www.fis.org.nz/BreakOut/vuw/schols.phtml?detail+600366>

¹⁵ Victoria University of Wellington. (2014). *Support for Māori and Pasifika Students*. Retrieved from <http://www.victoria.ac.nz/slc/study/student-support/maori-and-pasifika>. See also Otago University. (2014). *Māori student support services*. Retrieved from <http://www.otago.ac.nz/services/maori.html>.

schemes locally, but elsewhere similar programmes have been shown to improve student outcomes.¹⁶

Critiquing the proposed policy

One of the underlying purposes of the policy is to encourage enrolment in Bachelor degree programmes. However, enrolment does not mean completion. Indeed, Māori and Pasifika are much less likely to finish their degree. 62 per cent of Māori and 58 per cent of Pasifika finish their degree within five years, compared with the average of 74 per cent.¹⁷ Alison Wolf, an expert in education reform, describes how employers now use degrees as a sifting tool regardless of whether the job applied for requires a degree.¹⁸ She highlights the trend that as more people become university educated, employers become more particular about job applicants, scrutinising their grades and work experience.¹⁹ A key risk with this policy is that while it incentivises those in priority groups to undertake university education, it risks focusing on increasing enrolment and completion rates without a focus on the quality of education and university experience.

There is also the important motivating aspect of students paying for part of their education. Local evidence shows that the fear students have of debt can lead to increased motivation toward studies and higher grades.²⁰ This could be driven by students knowing they will have to pay their loans back out of their future salaries and the belief that better grades will lead to improved job opportunities. Students work harder and demand more from their lecturers and tutors when they are paying fees.²¹ Their expectations rise. New Zealand's university sector is already highly subsidised, with a generous student allowance scheme and interest free student loans. The pertinent question is: if students are not prepared to pay some of the fees towards something that they are the primary beneficiary of, why should the taxpayer?

¹⁶ See for example Pechenkina, E. & Anderson, I. (2011). *Background paper on Indigenous Australian Higher Education: Trends, Initiatives and Policy Implications*. Australian Government Commissioned Research paper.

¹⁷ Ministry of Education, above n 11, at 13-14.

¹⁸ Wolf, A. (2002). *Does Education Matter?* (Penguin Books, London, UK) at 29.

¹⁹ Ibid.

²⁰ Haultain, S., Kemp, S. & Chernyshenko, O. (2010). *The structure of attitudes to student debt*. *Journal of Economic Psychology* 31 (3), 322-330 at 325.

²¹ Wolf, above n 18, at 124.

Another concern with this policy is a trend toward higher subsidisation of higher education instead of vocational pathways, such as apprenticeships. Inevitably, this policy would lead to higher consumption of university by priority groups, when some may be better suited to take vocational pathways. The reality is not everyone is suited for university, but everyone should be given the opportunity to contribute productively to our economy. The solution lies in setting the right incentives for priority groups to make the choice to enter further education after high school.

The final concern is the expense of this policy, particularly as it focuses on enrolment rather than outcomes. While the policy would improve the 'Equity' dimension of the Living Standards Framework by giving priority groups the opportunity to attend university, this is a tradeoff with the 'Managing Risks' dimension, and specifically a higher cost burden on taxpayers.

The way forward

When the Treasury discusses equity, it focuses on "reducing barriers that prevent people from making the most of their life choices" and "increasing the capabilities and incentives on people to make the most of the chances available to them".²² These considerations must be balanced against the risk of the policy, usually involving a detailed cost-benefit analysis.²³ The choice and ability to enter and succeed at university depends on a range of factors, with fees being only one. A large survey of 7000 Australian high school students found that the key drivers of students of low SES not wanting to go to university were lack of interest in subjects offered by universities, lack of encouragement from parents to enter university, a belief that vocational programmes would be more useful and the perceived expense of university.²⁴ When desires to enter university were compared with their parent's highest qualification, the students tended to match their aspirations with that of what their parents achieved. For example, if a parent held a

²² New Zealand Treasury. (2013). *Living Standards: A Short Guide to 'Increasing Equity'*. Retrieved from <http://www.treasury.govt.nz/abouttreasury/higherlivingstandards>.

²³ Bearing in mind the other dimension of the Living Standards Framework, 'Managing Risk'. See also UK Treasury. (2006). *Thinking about risk*. Retrieved from http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hmtreasury.gov.uk/d/tar_goodpractice_examples.pdf.

²⁴ James, above n 11, at x.

Bachelor's degree, their child felt that that is what they should achieve too.²⁵ These findings could be one reason why priority groups are poorly represented at university.

The role of a policy to encourage development of those in priority groups arguably needs to be part of a suite of changes across the whole education sector. The focus should be toward higher achievement across the board, not improved enrolment numbers. To assist this, there is a need to improve the quality of primary and secondary education, in particular teacher quality.²⁶ Teacher quality has been shown in numerous studies to improve students' future career outcomes and learning ability.²⁷

Based on the empirical evidence and balancing the dimensions of the Living Standards Framework, there is a clear need for additional assistance for priority groups in their journey through university. An assistance payment of about \$5000 to first year students from priority groups enrolling in both university and vocational programmes is a good tradeoff from the proposed fees-free Bachelor degree. This is already offered to a limited number of university students but could be expanded to all priority group students. The payment would be made direct to the university to cover fees only. This would be combined with universities being held to account in two key areas. First, priority group degree completion rates, rather than enrolment numbers. This would encourage universities to support and develop these students to achieve success in their university studies. Second, taking responsibility for developing priority groups to better prepare them for their working lives. This would include promoting life skills, such as helping them set goals and plan their careers. The use of role models, especially those from priority groups who have had successful careers, could also be used in this regard.

Conclusion

This essay has examined and discussed the issues of the low participation of priority groups in universities. It critiqued the policy proposed, and in light of empirical evidence proposed a

²⁵ Ibid, at 50.

²⁶ This has been recognised by the Treasury and the advice they have given to Government. See for example Treasury. (2013) *Education Key to Economic Growth and Equity* Retrieved from <http://www.treasury.govt.nz/economy/education>.

²⁷ See for example Hanushek, E. & Rivkin, S, "Teacher Quality" in E Hanushek and F Welch (ed) *Handbook of the Economics of Education* (Elsevier, 2006) 1051. While beyond the scope of this essay, see Lavy, V. (2011). *What makes an effective teacher? Quasi-experimental evidence* NBER Working Paper No. 16885 for an exploration of the literature of effective teacher traits.

more moderate option. It also suggested better accountability mechanisms within universities to ensure these priority groups are getting a quality education in spite of their lower SES. The suggested improvements aim to achieve the Treasury's ambitious Better Living Standards Framework aims, particularly in the areas of economic growth and equity.

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