

Rejoinder

Grant M. Scobie and Alex Duncan

Policy-makers face two key questions in respect of tuition subsidies per student. Should across-the-board subsidies be increased, reduced or maintained at present levels? And how quickly should any change be carried out? As with most policy questions, no simple answer exists and policy advice has to be given on the basis of incomplete information.

Both comments on our article recognise the difficulties involved in making the right policy decision. But both tend to focus on the question of whether the subsidy should be 0 per cent, or 10 per cent, or 50 per cent. In contrast, we seek to address the more relevant policy questions noted above. Our article suggests that there is enough evidence to show that lower across-the-board subsidies would create wider access to tertiary education. Taxpayer-funded resources released as a consequence should be used to tackle disadvantaged groups' under-representation in formal tertiary education.

The commentators refer extensively to the 1994 report of the Ministerial Consultative Group (MCG). Readers unfamiliar with the recent New Zealand debate may be left somewhat confused, since our article is neither based on, nor a defence of, the MCG report.

Lower subsidies per student backed by an income-contingent loan scheme would result in a more equitable system of funding education, and provide wider opportunities for groups that are currently under-represented. In fact, New Zealand policy has been moving in such a direction for six years already, and a further program of reductions in subsidies over the next five years was announced in January 1995.

We find nothing in the comments on our article that would convince policy-makers that the present policy course is incompatible with achieving wider participation and greater equity in tertiary education. Whether the ultimate level of subsidy should be 30 per cent or 60 per cent or some other figure is simply not germane to the policy debate. No one has suggested that we should move precipitately from the current position (with the exception of those who propose immediate abolition of all tertiary fees).

Devlin, Hansen and Knowles rightly point out in their comment that 'universities produce more than just teaching services' (p.223). Universities produce ideas and information through research; they provide storage functions; and they act as independent watchdogs on society. We concur fully with the point that universities produce multiple outputs. To the extent that there are genuine outputs that society wishes to obtain, we should make these explicit, allocate funds for them and then ensure that they are produced in a cost-effective manner. In other words,

rather than just assuming that universities produce 'good things' that we should all be taxed to support, we should decide exactly what these things are and invite contestable bids for their production. In view of the level of entrepreneurial and managerial expertise that universities have displayed in the past, we would be reluctant to assume that universities would be the only, or the most efficient, producers of those services. They could potentially be funded through New Zealand's contestable Public Good Science Fund. Let the production be open to all, not just universities. It is the output, not the process, that society wants.

Stephens raises four issues in his comment. In considering tertiary education as a right, he overlooks the rights of those who are forced to support students through higher taxes. Neither the notion that education is a right nor international covenants help society decide how much to subsidise tertiary education compared with health, food or housing, all of which are equally as important as rights. Even UNESCO, in its 1993 *World Education Report*, acknowledged that the current circumstances were not envisaged at the time the relevant covenants were entered into. It noted that that few countries have applied them fully.

Stephens claims that our argument involves moving away from ability to pay as a basis for funding education. We wholeheartedly reject this claim. It is the very essence of our argument that students with the ability to pay, as measured by their enhanced lifetime earnings, should do so. New Zealand's income-contingent loan scheme achieves this now. Further reliance on it can only result in a more equitable system of investment in education, precisely by making more explicit the link between those who benefit and those who pay. This link cannot be achieved by relying on general taxation as a source of funds.

Stephens implies that the determinants of higher earnings typical of graduates are relevant to the debate about ability pay. But it is hard to see why. After all, the private returns to tertiary education do not come only in the form of enhanced earnings. Nor might enhanced earnings be due solely to tertiary education. Higher than average lifetime earnings, regardless of their source, remain a sufficient justification for recovering costs according to the ability-to-pay principle.

We share Stephens's concerns about falling staff-student ratios. But this problem makes a case for greater efficiency and freedom of entry for producers of educational services rather than for more subsidies to existing institutions. We are puzzled by Stephens's assertion that open entry has been maintained in New Zealand. Quotas exist in law, medicine, engineering, architecture, pharmacy, physiotherapy and surveying, for example. Dependence on state subsidies generates inequalities in the form of non-price rationing.

Our article addresses in detail the fact that the government's current fiscal position is irrelevant as a basis for policy-making. We stand by our argument and note that no case exists for limiting enrolment growth to 1.2 per cent a year. At that rate, groups that are under-represented now would still be so after five years.

The uptake of loans to date by all groups of students provides no support for the claim that participation rates would be adversely affected by an income-contingent loan scheme. On the contrary, the availability of loans in conjunction

with lower subsidies per student and more total state support has appreciably widened access to education in New Zealand.

Stephens raises concerns about the deadweight costs of taxation, and questions Diewert and Lawrence's estimates of them (which in any case do not include all deadweight costs). But such costs are nonetheless significant. Stephens touches on this when he notes the trade-off between the adverse effects of targeting support for tertiary tuition through income-contingent loans and the costs of funding such assistance by higher general taxation. These judgments are central to debates about the relative merits of targeted and universal benefits, and there are legitimate grounds for differing views.

There is no doubt that higher effective marginal tax rates faced by graduates with income-contingent debt imposes efficiency costs. But these costs fall on only a section of the population, many of whom (such as prime-age males and, increasingly, prime-age females) exhibit a strong attachment to work. Moreover, levies on future income to repay loans are more easily avoidable than income taxes. Unlike taxes, students are not compelled to take up loans. The efficiency costs of higher marginal tax rates faced by this group are therefore likely to be lower than the costs of higher marginal tax rates faced by taxpayers generally to fund tuition subsidies. Of course, this judgment depends on the underlying rates of income tax and the levies paid on graduates' incomes. Under the existing regime, the marginal tax rate faced by graduates earning high incomes is 43 per cent, which is less than the top personal tax rate promised by at least one New Zealand political party. Even if levies on graduates' incomes had to rise for the highest income earners, the top marginal tax rates they face are unlikely to be high by historical standards.

One way of avoiding these difficulties, of course, is to offer loans that are not income contingent. But this is likely to make the student loans scheme less effective in widening access to tertiary education, especially for disadvantaged groups.

In the final paragraph of his comment, Stephens claims that we have not provided any economic (or political) reason why New Zealand students should pay higher tuition fees than students in other Western countries. That is because we did not attempt to. International comparisons of subsidies provide no guidance to policy-makers, though they do provide convenient ammunition for rent-seekers. New Zealand farmers receive fewer subsidies than their French counterparts; but that is not a reason for changing New Zealand's agricultural policies.

In summary, we maintain the position we adopt in our article: lower across-the-board subsidies per student together with greater reliance on the income-contingent loan scheme provides a fairer basis for funding formal tertiary education. From any given level of state support justified on equity grounds, more tertiary places can be funded and more support given to those whose primary and secondary education has left them behind at the starting gate. New Zealand's policy is currently moving in precisely that direction. Predictably, it is opposed by those who want to retain high subsidies for a privileged few. Neither Devlin et al. nor Stephens have made a case for turning back from a system that is providing wider access to tertiary education and a more equitable sharing of the costs.