

WHO SHOULD PAY FOR THE UNIVERSITY? SOME FOOD FOR THOUGHT

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SHOULD STUDENTS PAY FOR HIGHER EDUCATION?

- **ETHICAL DEBATE:** the arguments sound a priori sexy!
 - But I am not sure this is the key element – as policy makers seem mainly utilitarian
 - See the debate on the knowledge society, the « neo-schumpeterian growth perspective », the Lisbonne strategy... and no debate around wage inequality
 - I am not sure that ethical judgements (and criteria) are the same across all strata of the society (is there a science of ethics?)
 - You cannot think about it in isolation
 - The more so that the countries that use top up fees are also strongly unequal in terms of « results » (GINI coefficients)
- **EFFICIENCY DEBATE:** a priori easier!
 - If there are social benefits and private benefits to higher education, costs should be splitted between students and the society at large. How precisely is a debate !
 - Subsidiary issue: how many students do we need/want? Do they choose the right disciplines?
 - Do we want to move towards a market-like organisation of higher education with fees reflecting relative scarcities (Friedman's view?) => **COMPLEX ISSUE**

THE TODAY CONTEXT

- Large heterogeneity on the continent
- Some countries turn back to a free higher education (Germany) whereas others (as England) choose for top-up fees between 6,000 and 9,000 £
- Belgium: students pay 830 euros
 - If this is not that expensive...
 - It is nevertheless non-zero and there were debates in countries like Austria when they introduce fees of 735 euros – or in England with fees of 1,000 £ in the 90s
 - Those who say it is nothing may be already well off!

- There are 2 big trends:
 - MAKING HIGHER EDUCATION MORE AFFORDABLE
IN THE NAME OF SOCIAL JUSTICE (see later for the proper definition, more in line with the idea of « universal access ») – see the FEF
 - By lowering fees
 - By making higher education free (even by providing scholarships to cover living arrangements) AND non-selective
 - This works through general taxation => debate on reverse distribution (but less so if the system gives access to an ever increasing portion of a generation 18-20)

– MAKING HIGHER EDUCATION MORE EXPENSIVE (AND EVEN PERHAPS MORE SELECTIVE BUT THIS IS NOT ALWAYS CLEARLY PRECISED):

- Take into consideration the imperfect character of financial markets to fund prospective students
- Risks of alienating those from a poorer background or the middle class (see England 1997-2004)
- So the choice for an AUSTRALIAN MODEL (1987):
 - No upfront fees
 - A debt is accumulated and reimbursed later on, once graduated and only when one's incomes trespass a specified threshold (average wage in the population?)
 - Debates around the proper interest rate
- Make the students more conscious of the costs of their studies, and let the users pay (as it is assumed that most benefits from higher education are private ones)
- Do we want just a general rise in tuition fees to alleviate reverse distribution or also address efficiency issue and create an administered market (or even a true one) by a differentiation of fees by disciplines or universities (more or less prestigious)?

THE PROBLEM WITH ETHICS

- The ethical argument of avoiding reverse redistribution by increasing fees and letting the users pay is just one point of view (A)
 - It assumes that most of the gains linked to a degree go to the holder himself
 - It will justify higher future wages for degree holders to compensate higher private costs => more inequality of wages (of results)
 - One can observe that the societies that rely most on tuition fees are also the most unequal (Anglo-saxon countries with high GINI coefficients)

- BUT THERE ARE OTHER ETHICAL CRITERIA – AND UNLESS ONE BELIEVES IN A SCIENCE OF ETHICS... THEY CAN BE CONSIDERED AS WELL
- STUDENT ASSOCIATIONS TEND TO DEFEND A RIGHT TO UNIVERSAL HIGHER EDUCATION IN A NATURAL LAW PERSPECTIVE (B)
 - As Condorcet (end of 18th century) was pleading for a free universal primary education (a « devoir de Justice » of the State if one wants that equality of men has real content) there is now arguments about « universal higher education » that should be as needed as primary education in the 18th century => free provision is of key importance!

- **HIGHER EDUCATION IS INDISPENSABLE:**
 - In order to understand an ever complexer world
 - In order to earn one's living in developed societies, highly technologically developed and also with a costly labor force
 - One hears an echo of that in the arguments concerning the « knowledge-based society and economy » (Sapir Report, 2003; Cohen and Aghion, 2004) – but with a rather more elitist touch (universal higher education at the BA level is necessary in an innovation society BUT access to MA/PhD should be reserved to a cognitive elite) => this was also the Condorcet model !
 - The experts plea for an American-style model (market-like) because they view the US model as the best in the world (efficiency precedes equity)

IS THIS ALL ABOUT ETHICS?

- « Revealed Preferences »!
- Perspective A is put forward by:
 - Academics and rectors
 - Top research universities in need of money
 - Economists (concerned by efficiency and confident in the price mechanism to allow the best possible allocation of talents and no waste)
 - Reforming groups as ITINERA; either « right-wing » (free-marketeters) or Blairite « left-wing » (New Labour, UK; Terra Nova in France, PS)
 - Prevails in countries with high income inequality (Gini)

- The view B is mainly defended by:
 - Student associations
 - Trade Unions
 - The traditional left-wing
 - Those feeling on the rather « bad side » of the social border (the not-so-well-off, the middle class)
 - It is experienced in countries with relatively less income inequality (Continental Europe, Scandinavia).
- Of course, a more unequal society may be fairer if upward social mobility for the poorest exists (but it does not seem to be the case neither in the UK nor in the US).

- **NEVERTHELESS** even if **OPTION A** can *theoretically* be designed in order to foster and promote the participation of youngsters from poorer background (who exactly? Just the poorest? What about the middle class?), *empirical studies* (Chapman, 1997) do **not** show a strong improvement in this respect when introducing the Australian model (income contingent loans for higher education) (and results may be influenced by students from abroad – Asia – coming from less affluent background, whereas local students from middle classes do suffer)

ARE INCREASED FEES THE RIGHT TOOL FOR SOCIAL JUSTICE IN BELGIUM?

- There is an apparent argument about « reverse redistribution » of the today mechanisms (where higher education is funded through general progressive – even less and less so - taxation)
- But this argument should be compared with the existing social structure (perhaps also the fruit of such public system)

- Following LIS, Belgium is characterized by low GINI coefficients and a country with a quite large middle class and relatively few very poor and very rich (the reverse being true in the US and Russia)
- The participation rate to higher education is among the highest in OECD countries => it cannot be entirely true that only the well-off benefit from higher education
- A theoretical model should be confronted to the actual behaviour of prospective students!
 - ACTUAL BEHAVIOR MAY NOT MATCH THEORETICAL ONE!

- It is not sure that instrumental rationality in its full version, or actually the ability to compute and assess costs and benefits in a lifelong perspective (as well as the ability to process all the relevant information optimally) is socially equally distributed
- A very nice and well-designed model might not work in practice due to:
 - People do not understand the mechanism very well and select out of it (especially poor or middle class students concerned by the perspective of indebtedness)
 - People overweight the present due to preferences or difficult conditions
 - People overweight risk over returns

– EMPIRICAL STUDIES TEND TO CONFIRM THAT PEOPLE FROM POORER BACKGROUND OVERWEIGHT THE RISK OF FAILURE WHILE STUDYING (NOT TO SPEAK OF THE COST ASSOCIATED WITH STUDYING SEVERAL YEARS)

- They are therefore less well represented at university level – and over-represented in short-run higher education orientations
- Aspirations and ambitions seem also culturally/ socially determined
- Even with people possessing the same higher degrees – those from least well-off background appear less ambitious or risk-lovers
- It might be linked to the importance of a good social network to benefit optimally from a university degree

– A MODEL THAT IS SIMPLER AND DOES NOT IMPLY
INDEBTENESS MAY BE BETTER?

- Even with the best goodwill, it is not sure that if an optimal model with no upfront fees, reimbursement later on and all relevant information made available, the poor(est)s will take advantage out of it:
 - Culture may matter as much (or more) than money constraints
 - Example of English private secondary education and Belgian (free) private (catholic) one: one observes the same selective effects (even if nobody pays much in Belgium: effects of a quasi-market structure and differentiated social ability to make the best use of information

THE DEBATE AROUND EFFICIENCY

- Despite a debate around ethics, efficiency remains the key concern of policy makers
 - Australian example: keep the universities fit for competition with a funding scheme compatible with the need for internationalization (Australian HE is an « export good »)
- What does economics say about (higher) education?
 - It is not a PURE PUBLIC GOODS !
 - Non-excludable: no ! Barriers are possible => you can exclude those who do not pay
 - Non-rival: yes up to the point of congestion !

- You cannot therefore defend the **FREE CHARACTER of HE PAID OUT OF GENERAL TAXATION...**
- **UNLESS** you use another argument: **EXTERNALITIES !**
 - Those who invest in HE only take into account their **PRIVATE** costs and benefits with no regard for possible **SOCIAL** costs and benefits !
 - If there are externalities, i.e. social benefits that exceed the sole private benefits, an intervention is needed to ensure an optimal provision (investment in Human Capital) and avoid under-investment in HC => costs should be shared by the individuals and the society
 - Economists tend to think that students should not pay the full cost of their studies

– EXTERNALITIES GENERALLY PUT FORWARD:

- Better functioning of the democracy
- Better decision-making process
- Less crime
- Less addiction, more healthy behavior
- More generosity, altruism
- Longer life expectancy
- Women educated => reduce infant mortality and increase the level of human capital of children
- Adaptiveness to change
- Adoption of new technology
- Contribution to economic growth through higher productivity and innovation

- The debate faced a revival during the 2000s with the neo-schumpeterian growth theory and the idea that economies nearing the technological frontier will create growth mainly through INNOVATION => higher education at the highest level needed instead of general, average-quality secondary education (optimal for imitation and adaptation during the catching-up process)
- Another debate around employability in an era of globalization and technological change => reforms of HE systems and increased participation
- Debates on the proper ways to fund the necessary expansion in a context of limited public funds and competition with health and pensions (ageing society => preferences shift towards the 2 latter themes)

- Otherwise it seemed difficult to defend the increase of the private costs for HE if one wants increased participation !
- There were nevertheless many debates around the proper contribution of HE to economic growth especially at the turn of the years 2000:
 - Alison WOLFE (2002), *Does Britain Have Too Many Students?* Londres, penguin Books.
 - More scientific surveys by Benhabib and Spiegel, 1994; Krueger and Lindahl, 2001; Pritchett, 2001
- Skepticism around the contribution of HE to economic growth in OECD countries
- Role of the growth rate of HC (traditional factor production !) or of the stock of HC (innovation !)

- Should we foster the massive expansion of HE?
- Should we focus on specific, useful orientations?
- Should we limit access in order to balance quality and quantity?
- Role of the « market »: laissez-faire better than intervention?
 - Laissez-faire in a context of fully privatized institutions?
Fully public and subsidized ones?
 - Controls over enrollments? Entry exams, selection or just prices?
 - Administered quasi-markets with price differentiation determined by policy-makers (e.g. subsidize engineering and not history)

– THE CONSENSUS AMONG THE ELITE TODAY IS RATHER NEO-SCHUMPETERIAN (see Sapir Report, 2003; Aghion and Cohen, 2004):

- STOCK more important than GROWTH of HC as INNOVATION is more important than IMITATION in OECD Countries
- Elitist view: need for a network of world-class HE institutions recruiting globally => public funding is insufficient
- HE is important for everybody at the basic level (BA)
- But in an innovation society, the TOP OF THE TOP matters most => it should be very elitist and selective
- COMBINATION OF MASSIFICATION AT BA LEVELS AND ELITISM AT MA/PHD LEVELS (US model in mind)

- We come back here to a **CONDORCET MODEL**:
 - General free education needed to give the basics to everybody and help the institution to identify and select talents (with no waste => general inclusion and free access)
 - Scientific selective higher education for the brightest (with no social barriers, only talent should matter)
 - Vocational education for the masses
- **WHAT IS THE BEST WAY TO PROCEED?**
 - Selection through **MONEY** or through **EXAMS**?
 - **TRANNOY** and **GARY-BOBO (2005)**: money and selection are substitutes (in case of perfect capital markets there are prices that produce the right selection with no selection other than money)
 - **OTHER SCHOLARS**: fees and selection go hand in hand to reassure those lending the money to the selected students in a world of imperfect capital markets

– CONSENSUS TOWARDS A SELECTION PROCESS AT THE HIGHER STAGE OF HE FOR EFFICIENCY REASONS – WITH NO BARRIERS OTHER THAN TALENTS FOR EQUITY AND EFFICIENCY REASONS

- Is there an overall quantitative target in terms of participation to HE?
- How to deal with the proper allocation of talents between the various tracks (non-university, university; hard sciences, soft sciences)?
 - Quantitative barriers decided by the benevolent planners
 - Let the *market* prices play their role?
 - Let *administered* prices play their role? Pay less for those orientations in need on the market, or scarce (STEMM in England)?

- Should we rely on SUBSIDIES, on TUITION FEES, and on INCOME CONTINGENT LOANS?
 - Subsidize more the « useful orientations » (more support, lower tuition fees)?
- Should the loans cover the fees only? The living expenses as well?
- Issue of the right level of interest rate? Zero, subsidized, market-level?
 - Dangers of excessive indebtedness
 - In case of public (state) guarantee, what if overall economic crisis?
 - GENERAL EQUILIBRIUM EFFECTS? Fertility, marriage, consumption...

EXAMPLE OF DEBATE REGARDING THE LEVEL OF FEES

- Whatever their levels, introducing higher fees will lead to higher private costs and will necessarily lead (human capital argument) to higher levels of wages for the graduates (to compensate for higher costs and maintaining the value of the investment) => the level of inequality between non-graduates and graduates will increase ! More unequal society (in terms of results) !

- **OPTION 1: those orientations more demanded on the market should be made more expensive**
 - Just a market response: a high quality higher education is more and more costly (reduces supply) and the demand for it is increasing to survive in the labour market: with $S \searrow$ and $D \nearrow$, FEES will skyrocket as in the USA
 - Some orientations are more expensive because they are more costly (sciences) and others because they are more in demand (law, business, economics)

– BUT IS THE LAISSER FAIRE AN OPTIMAL WAY TO ENSURE THE RIGHT PROVISION OF SKILLS AND COMPETENCIES?

- Do students correctly react to market signals?
- Belief of the economists: if students are correctly informed, bear the cost of their education and are charged « market prices » - they will take the right decision
- BUT there is a debat concerning the transversality (among social classes) of the instrumentally rational behavior
 - Fear of indebtteness
 - Culture, prior schooling
- Are students fully rational?
- Should universities (supply) always follow demand?

- **OPTION 2: use the PRICING of orientations and universities to REGULATE the skill formation process and the SUPPLY OF HC !**
 - Subsidize more the orientations in need on the labor market
 - Engineering: free; History: expensive
 - Faith also in the rational behavior of students BUT not in the virtues of LAISSER FAIRE
 - Assume a very high degree of benevolence and of information processing abilities by the State
 - By reducing uncertainties, borrowing is less dangerous?

THE VIRTUE OF USING PRIVATE DEBT TO FUND HIGHER EDUCATION

- Equity arguments: the taxpayer does not contribute too much to the expansion of HE if he does not participate in it
- Efficiency: it makes students more conscious of the cost of their studies => they will maximize their time (reduce repetitions) and make economically relevant choices of orientations
- RISKS EXIST !
 - Reinforcement of an economy of DEBT => general equilibrium effects?
 - Socially unfair if only the poors have to borrow and not the riches? Is it efficient?
 - Attractiveness of such schemes in a period of financial upheavals and general economic crises with huge unemployment rates
 - How to deal with defaults (see The ECONOMIST, end of October)

CONCLUSION

- **WHY AS A VOTER I WOULD THINK TWICE BEFORE VOTING YES!**
 - Intergenerational equity: I benefitted during the 80s of the ‘old free system’ and I ended up in a world *ceteris paribus* less harsh than this one. How could I vote for a system that will increase the burden (private debt) for people like me but just younger? « Kicking away the ladder »?
 - How could I convince them to pay later for my pension?
 - The **TAX RATE** in Belgium (on labour) is today very **HIGH** (nearly Scandinavian level): how to accept to pay more for « public services »?

- By increasing tuition fees, one increases the private costs of human capital investment – if those investments are needed in the economy, the future wages of the graduates should be higher to keep the same level of private profitability => wage inequality will increase between graduates and non-graduates
 - Is it optimal in a general equilibrium perspective to have more inequalities
 - Side effects of more inequalities: more unstable economy, more private debt?
- Do we want to import an anglo-saxon style of society?
- Fees won't be enough to fund universities if public subsidies are reduced in parallel => « fuite en avant » towards the full privatization and implementation of an US model !

- ALL IN ALL WE RISK TO LAUNCH A DYNAMIC THAT WILL JEOPARDIZE THE CURRENT ARCHITECTURE OF THE BELGIAN SOCIAL MODEL:
 - Increased inequalities
 - Necessity to cut taxes
 - Dangers for the today system of pensions (répartition) => capitalization needed?
- The new model is sexy if you want a change towards a more free-market and American style of society !

- BUT AS A UNIVERSITY PROFESSOR OR A RECTOR I WOULD PERHAPS VOTE YES !!
 - Research is more valued than teaching
 - Massive expansion of higher education is a « cost » (time to teach => less time for research, publication...) – the more so that the rankings do not value our « social objectives »
 - Dream of top-universities wealthy, doing world-class research, with top students in nice and clean campuses
 - The necessity of developing the top of the top, a network of excellence is shared by all decision-makers... BUT the money is not there!

– MONEY IS URGENTLY NEEDED:

- To hire star professors
- To just increase wages at the level of intermediate public sector pay (not to speak of top managers)
- To buy top equipments, and more and more just scientific journals
- To have a surplus to pay for bonuses for excellent researchers
- OF COURSE it could also be in favor of decreasing the student-per-teacher ratio

– HIGHER FEES COULD BE WELCOME IF NOT THE PANACAEA

- Just a change in the funding formula as the government will reduce the subsidies in parallel
- Need for privatization?

OTHER WAYS?

- Fully privatize universities?
- Make them « European » => all universities depend on the Commission (maybe less expensive than the PAC) – and paid by a European tax!
- Taxes on capital, on financial movements?
- Turn back to progressive taxation?
- Taxing a bit more some big private companies (users of graduates) – or mimick the US model to favor fundations (fiscal advantage)?