

# Funding Higher Education: A Values-based Approach

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Which values should guide the design of a higher education funding policy?

Which funding policy does the best job at incorporating all the relevant values?

# Four funding models

**(1) Free Higher Education (FHE)**

**(2) Differential Fees (DF)**

**(3) Graduate Tax (GT)**

**(4) Income-contingent Loans (ICL)**

# Four funding models

## **(1) Free Higher Education (FHE)**

- tuition costs fully funded by state for all students
- all other expenses (accommodation, transport, WiFi, books, etc.) fully funded by state

# Four funding models

## **(2) Differential Fees (DF)**

- tuition costs funded to a different extent for different students by state
- all other expenses (accommodation, transport, WiFi, books, etc.) funded to a different extent for different students by state
- state funding supplemented by a manageable household contribution determined by means test

# Four funding models

## **(3) Graduate Tax (GT)**

- tuition costs fully funded by state for all students
- all other expenses (accommodation, transport, WiFi, books, etc.) fully funded by state
- all graduates pay an extra  $X$  per cent income tax compared to others in their earnings band

# Four funding models

## **(4) Income-contingent Loans (ICL)**

- tuition costs funded partly by state, but all students pay a set portion (e.g. 50 per cent)
- all other expenses (accommodation, transport, WiFi, books, etc.) paid for by student
- state provides a loan with income-contingent repayment to all first-time South African students who apply for one, sufficient to cover student's share of tuition costs and all other expenses

# Five values

- Access
- Freedom
- Equality
- Fairness
- Efficiency

# Access

Access:

*There must be no social barriers preventing different individuals from becoming equally qualified for, and attaining, training and careers for which they have equal natural aptitude*

# Access

=

*Formal equality of opportunity*

There must be no legal or conventional barriers preventing the most qualified applicant for an educational place or job from taking it up

+

*Substantial equality of opportunity*

There must be no social barriers preventing individuals from becoming equally qualified for an educational place or job for which they have equal natural aptitude

# Access

Access:

*There must be no social barriers preventing individuals from becoming equally qualified for, and attaining, training and careers for which they have equal natural aptitude\**

\*Not incompatible with policies of preference where there has been a history of unjust discrimination (Dworkin 1976; Hull 2015)

# Access

- Most formidable barrier to Access worldwide is varying quality of schooling (linked to socio-economic background) (Pillay 2008; Barr 2012)
- Higher education finance policy can remove financial barriers to studying and to developing human capital to potential

	ACCESS	FAIRNESS	EFFICIENCY	FREEDOM	EQUALITY
<i>FHE</i>	✓				
<i>DF</i>	✓				
<i>GT</i>	✓				
<i>ICL</i>	✓				

# Freedom

Freedom:

*No competent adult members of society should stand in relations of arbitrary power over, or involuntary dependence on, others*

# Freedom

A funding system which relies on household contribution delivers considerable leverage to parents/household-heads over:

- whether someone studies
- what they apply to study
- where they apply to study

# Freedom

This means Access is hostage to the beliefs/attitudes of household-heads (Barr 1998; Pillay 2008)

It can mean less of a match between student interests/skills and degrees pursued, and between degrees pursued and employer demand (undermines Efficiency)

# Freedom

Most fundamentally it means qualified would-be students can't freely choose whether to study a first degree, which degree to apply for, and where

	ACCESS	FAIRNESS	EFFICIENCY	FREEDOM	EQUALITY
<i>FHE</i>	✓			✓	
<i>DF</i>	✓			X	
<i>GT</i>	✓			✓	
<i>ICL</i>	✓			✓	

# Equality

Equality:

*Members of society should relate to one another as, and feel that they are, equals*

# Equality

Universities can help build a cohesive society of equals

Higher education funding policy can partially determine whether students form a cohesive society of equals

# Equality

Where some students have higher education as a gift from parents and others have to apply for aid, this can have a divisive/stigmatising effect

In particular, the means test can be experienced as stigmatising or humiliating

# Equality

‘the humiliation of standing in a National Student Financial Aid Scheme line, of being treated like a number while your entire future hangs on how someone’s day is going, being told you have to prove the degree of your impoverishment’ (Mail & Guardian, 28 October 2015)

‘we are calling for the Student Credit Management office, which expects students to prove their poverty before every registration, to fall’ (Cape Argus, 23 October 2015)

# Equality

## Means-testing can

- convey ‘the impression that one is not trusted, that one is an object of suspicion and hence is not being respected’
- communicate ‘disrespect ... by subjecting the poor to a level of scrutiny and control not experienced by the better off’
- require people ‘to do things, or reveal things about themselves, that they find shameful’ (Wolff 1998)

	ACCESS	FAIRNESS	EFFICIENCY	FREEDOM	EQUALITY
<i>FHE</i>	✓			✓	✓
<i>DF</i>	✓			X	X
<i>GT</i>	✓			✓	✓
<i>ICL</i>	✓			✓	✓

# Fairness

Fairness:

*There must be a presumption in favour of an equal distribution of the benefits of social co-operation (subject to variable contribution and need and the impact of distributive pattern on the size of the social product)*

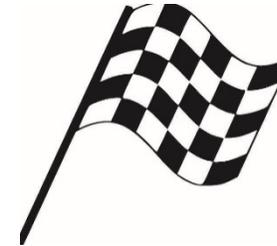
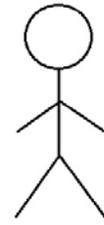
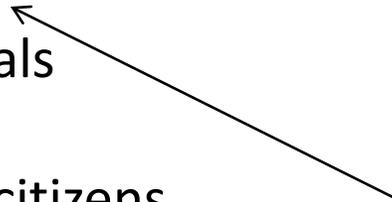
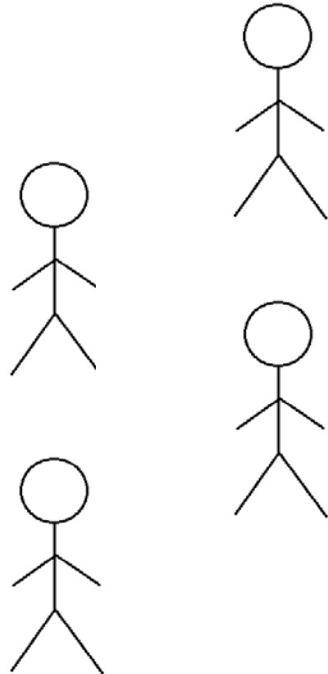
- *There must be a presumption against making one group of society-members bear the costs of advantages for another group when the first group does not enjoy comparable advantages*

Public goods:

- Skilled professionals
- Innovators
- Critically-minded citizens
- Artists
- Leaders

Private goods:

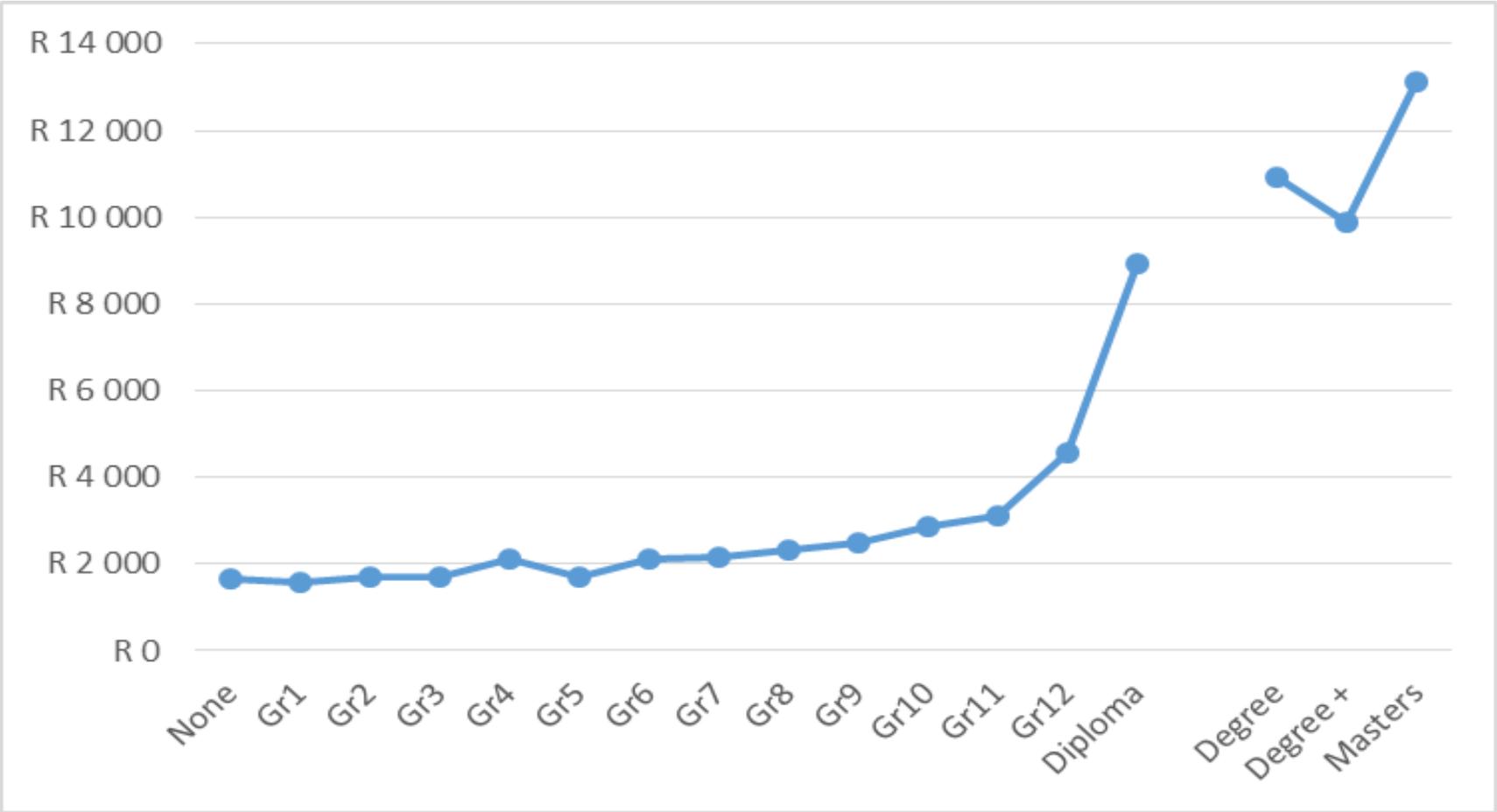
- Intrinsic benefits
- Competitive advantage



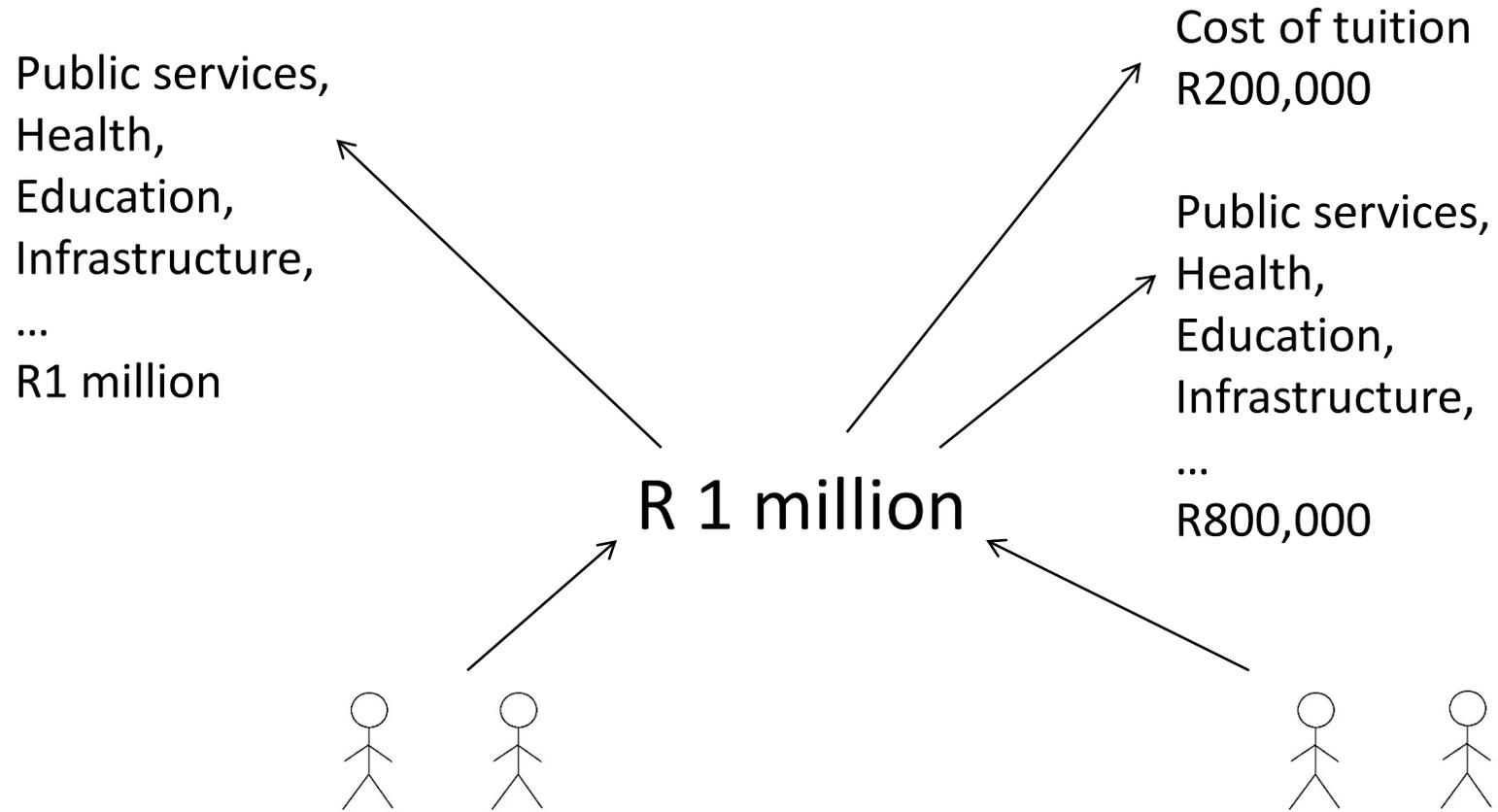
**Jobs**

**University Education**

# Expected monthly wage for 30-year-old black male by level of education, 2010



Source: Van den Berg (2016).



# Fairness

To the extent that higher education generates public goods, it is reasonable for it to be publicly funded

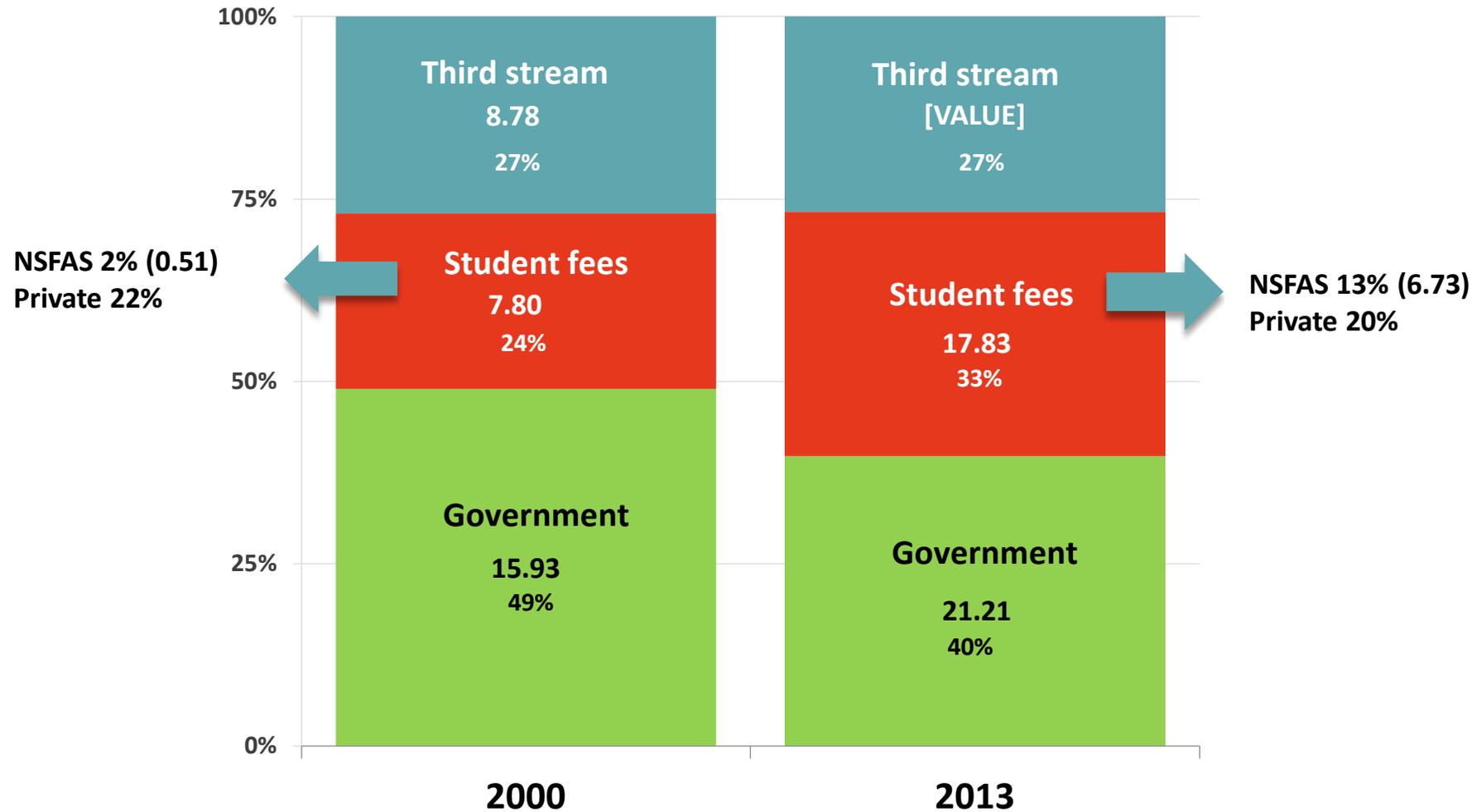
It is unfair to make other society-members fund a personal enhancement (private goods of higher education) for a small group which gives that group a competitive advantage over others

→ Cost-sharing

# Fairness

Given that other spending (e.g. health, basic education, infrastructure) is likely to be more effective in diminishing vast inequalities (Inchauste et al. 2015), even if extra taxes can be raised it is hard to justify spending the funds on the private goods generated by higher education

# Streams of university income (ZAR bn), 2000 and 2013



Source: DHET – Annual Financial Statements of universities & DHET – Annexure 3, 2<sup>nd</sup> National Higher Education Summit 15-17 October 2015.  
slide: CHET

	ACCESS	FAIRNESS	EFFICIENCY	FREEDOM	EQUALITY
<i>FHE</i>	✓	X		✓	✓
<i>DF</i>	✓	X		X	X
<i>GT</i>	✓	(✓)/X		✓	✓
<i>ICL</i>	✓	✓		✓	✓

# Efficiency

Efficiency:

*Supply of courses and programmes of study in the higher education sector should satisfy student preferences and labour market demand as far as possible, and as cost-effectively as possible*

# Efficiency

Competition by autonomously price-setting higher education institutions can foster efficiency

- With large student numbers, differentiated programmes of study and complex demands in the labour market, if universities are competing for the most able students and set fees autonomously, endeavouring to use resources ever more cost-effectively to provide attractive programmes, then price could signal cost and quality, and match supply to demand, better than a central planner ever could

# Efficiency

Market distortions occur

- undeserved institutional reputation
- imperfect information
- wasteful competition for able students via merit-based financial aid
- vanity spending
- cartels

# Efficiency

Market distortions can be addressed

- price regulation
- increased student information
- detailed public audit
- international peer review

# Efficiency

South African universities have an established tradition of charging fees (Wangenge-Ouma 2012) and there is a healthy range of different prices in the market (Wangenge-Ouma et al. 2008)

These are virtues of the South African system from the point of view of Efficiency

	ACCESS	FAIRNESS	EFFICIENCY	FREEDOM	EQUALITY
<i>FHE</i>	✓	X	X	✓	✓
<i>DF</i>	✓	X	(✓)	X	X
<i>GT</i>	✓	(✓)/X	X	✓	✓
<i>ICL</i>	✓	✓	✓	✓	✓

# Renewing NSFAS

- Loans to cover tuition and all other expenses
- Repayment threshold to be raised
- NSFAS loan collection through SARS, so it is as efficient as income tax collection
- No loan to be converted to bursary
- Interest rate on loans above the repo rate (but below commercial rates)
- Outflows on loans are not expenditure, only the RAB charge is expenditure (*e.g.* 20% non-recoverable)
- Universal eligibility to be phased in

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