



Future Funding for Higher Education

Oireachtas Committee on Education and Skills



Introduction

Social Justice Ireland welcomes the invitation to discuss the findings of the Expert Group on Future Funding for Higher Education with the Joint Oireachtas committee on Education and Skills.

Education allows people to live a full life. Living a full life requires both knowledge and skills appropriate to age, environment, and social and economic roles, as well as the ability to function in a world of increasing complexity and to adapt to continuously changing circumstances without sacrificing personal integrity. It makes a fundamentally important contribution to the quality and well-being of our society. Education and training are also crucial to achieving the objective of an inclusive society where all citizens have the opportunity to participate fully and meaningfully in social and economic life. The development of the education and skills of people is as important a source of wealth as the accumulation of more traditional forms of capital.

The National Risk Assessment (Department of An Taoiseach¹) identifies the lack of investment in education as one of the seven social risks facing Ireland. The report singles out human capital as an area for investment as our future economic performance will depend on the quality of Ireland's human capital. Education is widely recognised as crucial to the achievement of our national objectives of economic competitiveness, social inclusion and active citizenship. However, the overall levels of public funding for education in Ireland are out of step with these aspirations. Despite Ireland having the youngest population in Europe with 28 per cent of the population aged 0-19, Ireland spends relatively limited amounts on education. Government expenditure on education as a proportion of total government expenditure is the ninth lowest in Europe.

The purpose of higher education and how it is to be funded has become a topic of much discussion in Ireland. The CSO population projections indicate that considerable investment is required to ensure that the higher education sector in Ireland can continue to cope with the projected increased demand. However public funding for higher education in Ireland has been decreasing since 2009 despite steadily increasing enrolments both full and part time.

Investment

Skills are the currency of the modern global knowledge-based economy. Failure to invest in skills development could lead to lower levels of innovation, high levels of unemployment and lower

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http://www.taoiseach.gov.ie/eng/Publications/Publications_2016/Draft_National_Risk_Assessment_2016_%E2%80%93_Overview_of_Strategic_Risks.html

prospects for economic growth. OECD research² has stressed the necessity of fostering human capital for generating economic development. Education and adult learning are important drivers of economic, social and individual development. With changes in technology and globalisation, a failure to invest in education, skills development, and life-long learning could result in high levels of both vacant jobs and unemployment. The skills that are easiest to automate or outsource are the skills that are easiest to teach, routine cognitive skills. Educational success is now about creative and critical approaches to problem solving and decision making, and applying the knowledge that we have to different situations. It is about the capacity to live in a multifaceted world as an active and engaged citizen.

Over the past seven years there has been a 20.4 per cent reduction in the amount of funding per student and a 30 per cent decline in the staff to student ratio. Capital grants at primary, post primary and further education level were cut in successive budgets from 2011 to 2015 as was the core pay and none core pay funding for Higher Education Institutions. The policy of expenditure cuts pursued during this period is at odds with a strategy of increasing investment in human capital. Investment is required at all levels of our education system. In reality this will mean increased expenditure, both current and capital at all levels and over a period of time.

The Final Report of the Expert Group on Funding Higher Education points out that funding requirements for higher education should be benchmarked against the funding in those countries we aspire to emulate and compete with. The group noted that the purpose and value of higher education is its ability to add to the understanding of, and hence flourishing of, an integrated social, institutional, cultural and economic life. It contributes to both individual fulfilment and the collective good. The group also highlighted the contribution that investment in higher education makes to society, and the social and economic returns of this investment in the form of higher tax contributions, lower call on welfare benefits, the contributions of graduates to social and economic development of the state and enhanced social mobility.

Funding

The final report of the Expert Group, 'Investing in National Ambition: A Strategy for Higher Education', outlines options available to Government such as student fees, a graduate tax, student loans and the Government remaining as the sole provider of funding for higher education. This is an

² OECD (2015) *Universal Basic Skills: What Countries Stand to Gain*. <http://www.oecd.org/edu/universal-basic-skills-9789264234833-en.htm>

issue that Government should develop a framework for sustainable funding revenues over the next five years with a roadmap to 2028. This framework should have clear medium and long term targets. Public Investment will have to increase significantly over the next decade, regardless of which option or funding model that Government decides to implement.

One of the recommendations of the National Strategy for Higher Education to 2030 is to establish some form of student loan system to make the financing of higher education sustainable. There are strong arguments from an equity perspective that those who benefit from higher education and who can afford to contribute to the costs of their higher education should do so. This principle is well established internationally and is an important component of funding strategies for many of the better higher education systems across the world. People with higher education qualifications reap a substantial earnings premium in the labour market which increases with age³. The earnings premium in Ireland for those with higher education has increased by 22 percentage points since 2010. Third-level graduates in employment in Ireland earn on average 64 per cent more than those with a leaving certificate only.

Ireland is one of the few countries where the relative earnings of 25-64 year olds with qualifications from tertiary type A (largely theory based) and advanced research programmes are more than 100 per cent higher than the earning of people with upper secondary or post-secondary education.

There are also arguments against the introduction of fees for third level education, particularly in light of the absence of any complimentary strategy to ensure the long term future funding for the sector. These arguments relate to the possible costs of administering such a scheme, the risk of escalation in tuition fees and the prospect of there being no immediate saving to public expenditure as Government's loan guarantee would be recorded as General Government Expenditure⁴. Fees for part-time higher education courses are a barrier to people who wish to upskill or reskill throughout their lifetime. The policy challenge posed by these arguments is made more difficult by the lack of any alternative funding strategy for higher education. The Expert Group discussion paper on funding models for higher education details the advantages and disadvantages of a number of funding models including state funding, student fees, a graduate tax and employer contributions.

Fiscal rules

³ OECD (2012) *Education at a Glance 2012: OECD Indicators* https://www.oecd.org/edu/EAG%202012_e-book_EN_200912.pdf

⁴ http://www.nerinstitute.net/download/pdf/we_need_to_talk_about_higher_education.pdf

Ireland's investment as a percentage of GDP has been among the lowest in the European Union for several years (Eurostat, 2015). Such a position cannot be allowed to continue. Expenditure policy for investment will be severely constrained in the years immediately ahead, not least because the EU's fiscal rules now require that additional discretionary expenditure must be funded by additional discretionary revenue.

The rigidity of the fiscal rules in the Stability and Growth Pact are preventing Ireland from investing in areas where investment is urgently needed, areas such as education. *Social Justice Ireland* has consistently argued that public investment in areas such as education, healthcare, childcare should be excluded from the budget deficit calculations. We welcome the recent OECD recommendation that public investment be treated more flexibly within the Stability and Growth Pact.

Future funding needs

The funding of Higher Education must be considered within the overall funding requirements for education at all levels. This will require the development of a long-term sustainable funding strategy for education at all levels. Given the projected increases in student intake it is difficult to see how public spending on higher education can be curtailed and it would be extremely difficult to fund the sector on student loans alone. The sector will require long-term, sustainable Government funding to ensure that it can deliver what is expected of it in terms of human capital and engaging with society.

If we expect our economic and social infrastructure to catch up to that in the rest of Europe, how can we do this while simultaneously gathering less taxation income than it takes to run the infrastructure already in place in most of those other European countries? In reality, we will never bridge the social and economic infrastructure gaps unless we gather a larger share of our national income and invest it in building a fairer and more successful Ireland. As the Expert Group pointed out, funding requirements for higher education should be benchmarked against the funding in those countries we aspire to emulate and compete with. If we are to emulate these funding requirements this will mean an increase in the overall tax take.

When examining options for funding higher education consideration must be given to other areas of public expenditure which will also require an increased share of the overall tax take, for example healthcare and childcare. Government decisions to raise or reduce overall taxation revenue needs to be linked to the demands on its resources. These demands depend on what Government is required to address or decides to pursue. The effects of the recent economic crisis, and the way it was handled, carry significant implications for our future taxation needs. The rapid increase in our

national debt, driven by the need to borrow both to replace disappearing taxation revenues and to fund emergency ‘investments’ in the failing commercial banks, has increased the on-going annual costs associated with servicing the national debt. Despite favourable lending rates and payback terms, there remains a recurring cost to service this large national debt – costs which have to be financed by current taxation revenues. The estimated debt servicing cost for 2017 is €6.1 billion. Furthermore, the erosion of the National Pension Reserve Fund (NPRF) through using it to fund various bank rescues (over €20 billion) has transferred the liability for future public sector pensions onto future exchequer expenditure. Although there will be some return from a number of the rescued banks, it is likely to be small relative to the total of funds committed and therefore will require additional taxation resources.

These new future taxation needs are in addition to those that already exist for funding local government, repairing and modernising our water infrastructure, paying for the health and pension needs of an ageing population, paying EU contributions and funding any pollution reducing environmental initiatives that are required by European and International agreements. Collectively, they mean that Ireland’s overall level of taxation will have to rise significantly in the years to come – a reality Irish society and the political system need to begin to seriously address.

The funding needs of higher education will require increased public investment regardless of the funding option Government decides to implement, which means that Government will have to raise the amount of national income collected on an annual basis. Government should develop a framework for sustainable funding revenues over the next five years with a roadmap to 2028. This framework should have clear medium and long term targets. This framework should be part of an overall Government Strategy to deliver decent services and infrastructure, a vibrant economy, just taxation, good governance and sustainability.

Social Justice Ireland is an independent think-tank and justice advocacy organisation of individuals and groups throughout Ireland who are committed to working to build a just society where human rights are respected, human dignity is protected, human development is facilitated and the environment is respected and protected.

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