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Neither 'efficiency' nor 'equity' in higher education: The curious case of student loans

About the Author

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Abstract

The purpose of this essay is to explore the (im)possibility of achieving two important but, seemingly, contradictory goals of 'efficiency' and 'equity' in higher education through the case of student loans market. Here, 'efficiency' is defined in terms of internal efficiency in economics i.e. as producing the right bundle of outputs given the needs and wants of stakeholders, and then minimizing production cost for the given bundle (Massy, 2004:13). Broadly, the concern for equity invokes the question whether the current higher education system meets society's requirements for justice such as equality of opportunities across social categories (Johnstone, 2004).

The efficiency-equity trade off

To promote efficiency in higher education, two sets of related but distinct policy prescriptions have informed and shaped the current education policy reforms in many countries including India. The first set of policy prescriptions seeks to see the world in the image of a neo-liberal market model (Marginson, 2012) and higher education sector is no exception. Thereby, encouragement to the private sector, introduction of tuition fee, push towards cost-sharing by the students/parents, reduction of public expenditure in higher education, are some of the steps towards the so-called marketisation of higher education (Levidow, 2002, Teixeira et al., 2004). The second set of policy prescriptions, often referred to as the New Public Management (NPM), mandates the universities to behave business-like and encourages 'private sector' management techniques in higher education (Marginson, 2012) . Both these set of market-based, policy prescriptions are produced, circulated and reproduced by the dominant policy discourses and practices in the name of encouraging efficiency in higher education. The claimed results are-better match between the set of student/parent preferences and the provisioning of higher education, as well as, cost effectiveness. Notwithstanding, markets in higher education are neither theoretically tenable nor practically possible (Teixeira et al., 2004, Marginson, 2014). In this essay, the emphasis is on the lack of concern for distributive justice inherent in the market logic.

It is now a well-established notion that, among other set of market failures, market may fail to allocate goods and services in the interest of the larger society. If universities are pushed to generate their own revenues and be cost effective, they might, advertently or inadvertently, focus upon fee-paying students, promote commercial courses and summer programmes, and become more enterprising. In the process, the larger social goals of higher education such as ensuring equity, encouraging social mobility or for that matter producing organic intellectuals, might be compromised. Therefore, theoretically speaking, one hits a typical catch-22 situation in higher education. Government failure, inefficiency, bureaucratic hurdles and corruption leads one to explore the market-based policy interventions in higher education,however, marketisation in higher education may lead to a neglect of equity concern, which paves way for government regulation in higher education.

Of course, in the real world, instead of sharp dichotomies between public and private provisioning and financing of higher education, there exists a set of convex combinations of public and private provisioning and management. Thus, on the one hand, instead of a full-fledged market, only a *quasi*-market in higher education is encouraged. On the other hand, various government regulations mandate all universities including the private ones, to adhere to some affirmative policies or the other. The ultimate objective is to strike a balance between economic imperatives and distributive justice, between efficiency and equity. In this context, I explore the case of student loans, or at least a variant of it, in higher education, which is argued to strike a balance between these seemingly irreconcilable objectives (Chapman, 2014, 2016).

Possibility of reconciliation? The case of student loans

The proposition of student loans in higher education is a move towards cost sharing governmental policies (Johnstone, 2004). Cost sharing in higher education entails that near exclusive reliance on public expenditure or tax-payers money should be curtailed, and, some portion of the cost of education should be shared by students and parents. When students and parents pay out of their pocket or through some student loan, they feel the pinch of parting away with the money , and therefore, will have all the incentives to push the universities to deliver them the best 'quality' higher education service. While quality in higher education can be variedly defined, in the market framework, 'quality' fulfills 'value for money' and 'fitness of purpose' criteria for the students and the parents (Harvey and Green, 1993).

When universities are no longer exclusively funded by public expenditure and t are increasingly relying on the tuition fee paid by the students and the parents, they are bound to address their likes and dislikes. This would include not only academic matters but also student living conditions and provisioning of other infrastructure. Access to student loans, thereby, solves the misaligned-incentive problem in higher education whereby, university revenue is now directly dependent on loan-backed tuition fee payment by the students and the parents, rather than on the government's resources.

Given the paucity of public expenditure and the direct relationship between expenditure and university quality (Winston, 1999), a country's higher education system can afford only a few good quality public universities. For instance, relative to the size of the relevant cohort in higher education, India has very few high-quality university level institutions such as the IITs, the IIMs, the Central Universities etc. These institutions, thereby, are bound to be exclusive and indeed, highly selective. If university cost is borne by students and parents via student loans, the emergence of a number of higher educational institutions, especially, private ones can be expected to reduce selectivity in higher education, and thereby improve access, as well as, equity in the sector. Thus, a student who might have been rejected in a highly selective, publicly funded universities system, will get an opportunity to study in a privately funded university where the tuition-fees is paid via student loan, thus resulting in greater equity. To make this policy, a bit more inclusionary and to provide a safety net against a high repayment burden (in case the concerned student gets a job with low salary), the idea of income contingent loan is proposed (Chapman, 2014, 2016). In income contingent loan, unlike mortgage style loans, the monthly repayments to the bank is pegged to the borrower's income, family size, and total amount borrowed, among other factors (Gayardon, 2018). The ultimate guarantor of the income contingent loan is the government. The government automatically forgives outstanding balances once the payment period is over: this is called the "hidden grant" (Gayardon, 2018: 18).

Student loans in the international context: Reality check

Variants of income contingent loan have been adapted and implemented in many countries. In 1989, Australia adapted the Higher Education Contribution Scheme (HECS), now referred to as the Higher Education Loan Program (HELP). The United Kingdom has an on-going student loan scheme with income contingent elements. New Zealand adapted its students loan scheme in the year 1992 where the repayments from the borrowers from New Zealand are income contingent. Apart from these countries, Ethiopia, Hungary, South Africa and South Korea have also implemented the income contingent loan scheme. In most of these countries, the loan system relies on the tax infrastructure, to automatically deduct the monthly repayment amount from the debtor's account.

In the recent past, the income contingent loan schemes have been suffering from the issue of poor-sustainability in many countries. The Australian HELP is under pressure to reduce its expenses to maintain the sustainability of the programme. In New Zealand, the Government has revised the interest rate from 10 to 12 percent to bear with the poor recovery and the outstanding non-performing assets. In England, increasing number of bad student loan and the rising tuition fee have pushed England to explore new ways of financing and provisioning of higher education. Thus, while its not certain if the student loans have led to the rise of 'quality' in higher education ; the empirical evidence hints towards rise of tuition fee.

England is now seriously considering making higher education tuition free altogether. It is argued that student loans are inherently regressive and unfair (Lybech, 2019). While some of the wealthy students are usually supported by their parents, it is the students who come from middle-class who rely on educational loans (Gross et al, 2008). Thus, the middle-class students, unlike their wealthier counterparts, end up starting their professional life with a huge sum of debt. Moreover, the issue of student loan going bad exists in the country.

Today, in Britain, it is expected that only a fraction of students will ever pay the government back in full (Lybeck, 2019). Given that the bad loans are ultimately bailed out by the government, and in effect by the tax payers, is the possibility of having a grant based or tuition free higher education system funded by the revenue collected by progressively taxing the wealthier, worth exploring? Such a system will have an added advantage in terms of positively impacting the psyche of the students belonging to the middle-class or for that matter, to the poor socio-economic strata, who would be relieved of the burden of indebtedness in their formative years of employment.

The Indian Context

The educational loan scheme in India was launched less than twenty years ago. While there is no conscious policy directive for the repayments to be contingent on income , however, they are treated among the priority sector advances by the Reserve Bank of India. Banks may also provide moratorium, taking into account the possibility of unemployment/under-employment, two to three times in a student's life-cycle (IBA, 2015). Initially, there has been a huge enthusiasm in the banking sector to advance and disburse a large sum of educational loans (Jayadev, 2017). Over the years, banks have become more cautious of lending because of high loan-default risk. In 2014, close to 10 per cent of the total students in higher education, funded their education through loan (Jayadev, 2017). According to an analysis, to reach the targeted higher education gross enrolment ratio of 30 per cent by 2020, at least 20 per cent of the enrolled students should have access to educational loans (GOI, 2011). Thus, there is a clear case of not enough advances by the banks under the student loans category. Moreover, the repayment burden is estimated to be quite high,whereby, a substantial proportion of the gross salary of the debtor goes into loan repayment. This exists despite of the interest subsidy given by the government. Furthermore, the problem of high repayment burden needs to be juxtaposed with the issue of high fee across profess sional educational institutions and underemployment of the graduates with low starting salary, or even the prospects of being unemployed, especially when studying in non top-tier institutions.

More empirical evidences suggest a case of market failure in the Indian student loanable fund market. A recent Reserve Bank of India report pointed out that the share of the public sector banks in lending to the education sector is 91.42 per cent. This means that the private banking sector is wary of advancing student loans despite of them charging a higher interest rates vis-à-vis the public sector banks. Apart from this, there seems to be systematic inequality across social categories in term of who the loan beneficiaries are. The SC and the ST students avail only 4.78 per cent and 1.72 per cent of the total loan sanctioned, respectively (Jayadev, 2017). Students belonging to the General and the Other Backward Class categories avail 93.5% of the total loan. To explain this, one may invoke the poor financial knowledge and the socio-cultural hurdles faced by the marginalized population in securing a seat in higher educational institution. However, one cannot deny the discriminatory behavior of the bankers who more often than not, rely on their judgement to decide the creditworthiness of the prospective debtor. Given the prevalent social practices in the country, it is inevitable that students from the marginalized population are discriminated against, even by the banking system.

Conclusion

The student loan argument, that wishes to achieve equity, as well as, efficiency objective in higher education by giving the purchasing power capacity in the hands of the students/parents misses the very nature and the essence of university education. It is neither only a service nor only a product whose quality can be commanded by student-customers.

It is, more importantly, a process, an experience good with transformative capacity, with credential aspect of quality that takes a life time to be realized, understood and absorbed (Jones, 1979).

In such a case, market model in higher education, which seeks to fund higher education invoking market mechanisms-such as student loans, is bound to be marred with problems. For that, markets in higher education are neither efficient nor have concern for equity. This pushes the policy-makers and other stakeholders in higher education, to continue their search for better ways of financing higher education. We need to be watchful of the debate around removal of tuition fee in higher education, as invoked in the context of Britain, as a possible way forward.

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