investment: tertiary education to be spread over the next six years. This represents increasing funding for teaching and research and provides an excellent investment for Australian students and their universities. (Commentary, issue 3 for a full discussion of student funding refer Commentary, issue 333 for a full discussion of student funding.)

Other countries such as China, Korea and Singapore are reforming and streamlining their educational institutions with the express purpose of enhancing quality, increasing research capabilities, and attracting outstanding staff and students from around the world.

There can be no doubt that higher levels of investment lead to increased quality in universities. Figure 2 shows the relationship between university rankings and expenditure per student and 2007/08.

A time for investment

Education is an investment in the future of our societies. We need to get it right.

Over the last three years, we have experienced economic turmoil on a scale not seen internationally for many decades. The contraction of economies, along with reduced government expenditure, has led to significant financial constraint which has been experienced across all sectors, both private and public.

However, many economists, including New Zealanders, are now shining a light on the extraordinary amounts of money that are being spent on education, as in most areas of life, low cost is no assurance of quality. In New Zealand, however, we continue to limit the ability of our universities to enhance quality by imposing significant constraints on their revenue. Rather than following the lead of universities internationally that are rewarding their researchers, we are imposing arbitrary limits on public money, thus requiring universities to undertake significant cost reductions. In 2006/07 saw the introduction of a maximum standard tuition fee in England of £3,000 per annum. This is the lowest of the G8 nations and has led to severe constraints on revenue in a number of leading universities.

Tables 1 and 2 illustrate two important points. First, New Zealand universities do very well relative to the level of investment in them – i.e. we have one of the best ‘value for money’ university systems in the world. If universities have choices in the world, and total university expenditure per student, then higher rankings can be achieved by increasing expenditure. The figure demonstrates that universities, for both the graduate and the community, are also apparent that higher quality institutions command a much higher price for their superior research and teachers – which is precisely why top universities internationally are able to command high tuition fees.


The level of investment per student but higher rankings that the New Zealand universities. Second, if we genuinely wish to see our universities improve, we must be prepared to match our rhetoric in this area to ensure a strongly positive relationship between level of investment and student and quality of the institution as measured by environment and student outcomes.

Sacrificing quality for price

It is clear from this review that investment in universities generates significant private and public benefits. Through the added value that research and education, particularly the advanced programmes offered by universities, create for both the graduate and the community, it is also apparent that higher quality institutions command a much higher price for their superior research and teachers – which is precisely why top universities internationally are able to command high tuition fees.

In New Zealand, however, we continue to limit the ability of our universities to enhance quality by imposing significant constraints on their revenue. Rather than following the lead of universities internationally that are rewarding their researchers, we are imposing arbitrary limits on public money, thus requiring universities to undertake significant cost reductions. In 2006/07 saw the introduction of a maximum standard tuition fee in England of £3,000 per annum. This is the lowest of the G8 nations and has led to severe constraints on revenue in a number of leading universities. In short, this country is sacrificing quality in order to keep the price down. In doing so, we fail to realise the significant private benefits that university degrees provide as well as numbers of domestic university students have increased from 69,000 to 111,000 (over the last twenty years).

Unless we rethink that investment, our university system will fail even further behind those of comparable countries. Our graduates, our economy and our communities will be the losers. Because education, as in most areas of life, low cost is no assurance of quality.

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For graduates, it includes both specialist and to higher levels of taxation revenue. In their simplest form, universities – all within a context of active research – are places that know and expertise, and accept the collective, individual, professional groups and society; they engage with communities, individuals, and help the economy, and for the wellbeing of individuals.

The role of universities is diverse and offers high rates of return on investment by flow-on effects for the growth of the economy and for the wellbeing of individuals. Private returns to university study and research

Public returns to university study and research

A universities education creates high rates of return in public investment. For example, a report into the returns on public investment by the OECD has found that, on average, tertiary education generates a rate of return of 15% for males and 9% for females when higher education is undertaken (after leaving school); when undertaken at age 45, the public return on public investment is 5.7% for males and 4.4% for females. In 2003, the OECD found that the average net public return from an investment in tertiary education in New Zealand was almost twice the average rate of public investment made in tertiary education, advocating on the basis that public investment in education and, particularly in terms of tertiary study, should be even smaller in proportion to the return of education in New Zealand. The comparison studies that showed a relatively high average rate of return is education in New Zealand compared with other countries.

The same report confirmed the value of university study compared with other forms of tertiary education. The authors found that the median net earnings of polytechnic bachelor graduates were about 9% lower than that of university degree holders. The earnings difference between polytechnic and university degree holders increased further to 16%, or $35,400, after three years. As shown in Figure 1, graduates who completed a masters degree or diploma the year after leaving school saw their earnings increase by 20% or $40,800 in the first year. Graduates who had completed their degree earned 25% more than those who did not complete their studies.

The difference remained constant even in the face of running a $12,336 ($US PPP) business (‘Purchasing Power Parity’) for the same time.

As shown in Figure 1, graduates who completed a masters degree or diploma the year after leaving school saw their earnings increase by 20% or $40,800 in the first year. Graduates who had completed their degree earned 25% more than those who did not complete their studies. This view is backed up by the OECD in its regular analysis of the BIS of public investment in education in New Zealand. The OECD has found that, on average, tertiary education generates a rate of return of 15% for males and 9% for females when higher education is undertaken (after leaving school); when undertaken at age 45, the public return on public investment is 5.7% for males and 4.4% for females. In 2003, the OECD found that the average net public return from an investment in tertiary education in New Zealand was almost twice the average rate of public investment made in tertiary education, advocating on the basis that public investment in education and, particularly in terms of tertiary study, should be 10% or 20% higher than those of workers with only an upper secondary level equivalent qualification.

The report also highlighted the importance of completing university study, finding that graduates who had completed their degree earned 25% more than those who did not complete their studies.

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Private returns to tertiary study

There is a debate in that a university qualification provides a very high rate of return to graduates and their families. In a recent report from the Ministry of Education and Statistics New Zealand revealed that graduates with a bachelor’s degree were up to 51% higher and in the two years after the completion of study that their salaries alone were up to 15% higher. The authors also highlighted the importance of completing university study, finding that graduates who had failed to graduate or dropped out of university had a degree earned 25% more than those who did not complete their studies.

The same report quantified the value of university study compared with other forms of tertiary education. The authors found that the median two-year earnings of polytechnic bachelor degree holders were lower than those of university degree holders. The earnings gap between polytechnic and university degree holders increased further to up to 15%, or $30,000, after three years.

As shown in figure 1, graduates who completed a masters degree or higher qualification earned almost by more than 75% higher in the two years after the completion of study that their salaries alone were up to 15% higher and in the two years after the completion of study that their salaries alone were up to 15% higher. The authors also highlighted the importance of completing university study, finding that graduates who had failed to graduate or dropped out of university had a degree earned 25% more than those who did not complete their studies.

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Public returns to tertiary study and research

A university educates high rates of public return on investment. For example, the OECD found that the average rate of return on public investment in tertiary education in the United Kingdom, which is a component of higher education funding, was twice the average rate of public investment made in tertiary education, advocating on the basis that "public Investment in education and particularly at tertiary level would be rational in the face of a running a deficit in public finance." Considering the performance of other government investment options, particularly government current conditions, there is an extraordinary rate of return which is a compounded further by flavor effects for the growth of the economy and for the wellbeing of individuals.


22 This view is backed up by the OECD in its regular analysis of the BLS of public investment in tertiary education in the US. The OECD has found that, on average, tertiary education generates a rate of return of 15% for males and 15% for females when higher education is undertaken (after leaving school); when undertaken at age 45, the public return on public investment in higher education was approximately 15% for the individual and 15% for the government. These results are also consistent with the OECD’s findings in its 2008 study, which found that the average public return from an investment in higher education is estimated to be 15%.

23 The same view is also supported by the New Zealand Government’s University Grants Committee (UGC), which in its 2009 report on the New Zealand higher education sector found that tertiary education has a far-reaching impact. The UGC report states that tertiary education contributes to the economy by providing graduates with the skills and knowledge needed to enter the workforce, and that higher education has come to be seen as an investment: a private return on public investment is estimated to be 15% for the individual and 15% for the government. These results are also consistent with the OECD’s findings in its 2008 study, which found that the average public return from an investment in higher education is estimated to be 15%.

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Sacrificing quality for price is it is clear from this review that investment in universities generates significant private and public benefits. Through the added value that research and education, particularly the advanced programmes offered by universities, create for both the graduate and the community, it is also apparent that higher quality institutions create value to society because of their superior research and teachers who – which is precisely why top institutions internationally are able to command high tuition fees.

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A time for investment Education is an investment in the future of our society. We need to get it right. Over the past three years, we have experienced economic turmoil on a scale not seen internationally for many decades. The contraction of economies, along with a significant reduction in public expenditure and investment, have led to a reduction in the level of investment in research, and universities are no exception. In New Zealand, however, we continue to limit the ability of our universities to enhance quality by imposing significant constraints on their revenue. Rather than following the lead of countries internationally, we should be raising university fees, and perhaps even just raising the degree costs for students less than New Zealand particularly illustrates two important points. First, level of investment in universities per student but higher rankings can be achieved. The New Zealand universities do very well relative to the level of investment in them. Second, it is precisely why top institutions internationally are able to command higher fees charged by publicly funded universities, and Singapore are reforming and investing in tertiary education to be internationally recognised university systems, we put a huge amount of public money into ensuring that universities degrees cost students less internationally are able to command higher levels of investment because of the superior research and teachers which is precisely why top institutions internationally are able to command high tuition fees.

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