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Paying for public education: students versus taxpayers

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The University of Minnesota and Minnesota State Colleges and Universities system both recently announced proposals to continue the current tuition freeze for two years, but in return they are asking the state to provide $65 and $72 million respectively to cover rising costs. The state of New Jersey is considering a bill that would freeze tuition at both public and private universities. (Though it is not clear whether the latter freeze would be enforceable.)

These budget proposals provide a clear public policy choice that is at the heart of all state funding of higher education. While public institutions have begun fund-raising efforts in recent years, the basic sources of revenue for most public institutions are tuition dollars and tax dollars. This budgeting model raises a very clear question. Should students and their families pay for higher education or should taxpayers? There are two dimensions to this question: equity and positive externalities.

Equity. If the benefits of higher education accrue exclusively to the student, the basic issue here is one of equity, namely should taxpayers subsidize the education of young people even as they will have higher earnings as a result? Is it appropriate to transfer income from taxpayers to students and their families by substituting tax dollars for tuition dollars?

Positive externalities. If, on the other hand, positive externalities exist in higher education, meaning some of the benefits of education accrue to the public and not just the student, then there is a case to be made for subsidization. The taxpaying public gets some benefits from more higher education in their state, in addition to the individual student.

The case for such positive externalities is pretty clear at the primary and secondary school levels. An educated populace is necessary for the functioning of a democracy and basic skills like literacy and numeracy typically allow individuals to function in the economic system without required financial support from society. For these reasons, primary and secondary education are typically available free to students–most often funded by property taxes.

The issue gets more complicated at the post-secondary level. While a highly educated populace will raise GDP and economic activity, which has benefits for all of society, most of the benefits of higher education are received by the individual who gets the education. Society may benefit from the taxes paid by that individual, but their ability to function in a democracy or stay out of jail or off of welfare are not significantly enhanced by a bachelor's degree. So the positive externalities of higher education are significantly smaller than for primary and secondary education.

Beyond a bachelor's degree, the case for subsidies is even harder to make. The University of Minnesota plan proposes to freeze tuition for most graduate students, including medical students. There may be a case for public support of some graduate students, but physicians are among the most highly paid professionals in the United States' economy–not investment bankers maybe, but quite highly rewarded nonetheless. The argument that their education provides significant positive externalities to society is a stretch. They certainly provide great benefits to their patients, but they are well-compensated for those efforts.

So policymakers and the public must consider two issues as they make decisions about paying for public education. The equity question: to what degree are students deserving of public subsidies? The externality issue: does the education in question generate benefits to the public beyond the gains that accrue to the individual student?

Europe provides an interesting, maybe extreme, example of this same policy question, but where the debate is currently more muted. Most countries in Europe provide tuition-free higher education, either believing that students (and their families) deserve to be subsidized and/or that the positive externalities of higher education are very high. Regardless of the reasoning, it is very hard to make the case that some significant benefits from education are not received by the individual student in the form of higher earnings over a lifetime, and therefore tuition should be something greater than zero.

Over the years, I have had a debate with a British friend about the pricing of education. She argues that a price of zero is necessary to induce the least well-off in society to go to University. I have argued that to have her working class family pay taxes to subsidize the education of Cambridge and Oxford students, among others, seems inequitable.

Interestingly, budgetary pressures, if not economic reasoning, have moved the argument in my favor in the England where students currently pay about 9000 pounds (about $14,500) in tuition each year.

In the United States, the same budgetary pressures are at the heart of this policy debate. Most states have cut back significantly on taxpayer support for higher education in the past decade, a trend that is likely to continue. This will change the model of public higher education into one that is sometimes called "high tuition, high financial aid." Of course this model already exists in private higher education where sticker prices are high but students and families are offered both means tested financial aid to ensure access and often merit based aid to enhance student quality. One can debate how well private higher education balances equity, externalities and efficiency, but it seems to have served students quite well over the years.

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Michael Hemesath is the 13th president of Saint John's University. A 1981 SJU graduate, Hemesath is the first layperson appointed to a full presidential term at SJU. You can find him on Twitter [at] PrezHemesath.