



Taking Responsibility

**FUNDING TERTIARY
EDUCATION IN JAMAICA**

BACKGROUND BRIEF

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Main Points

- The funding policy of the Jamaican education sector can be said to be providing a direct subsidy to the economies of the industrial countries.
- The Jamaican system of subsidizing university fees indiscriminately, results in a situation in which most get more assistance than they need, whilst those who really need it do not get enough.
- The country needs a funding model which, first, separates research from teaching; and second, shifts the burden of expenditure for teaching towards the principal consumers – the students – but in such a way as to enhance access and expand higher education.

Given the scarcity of fiscal revenue in the country, the resources needed to improve the education system will have to be generated, not through new cash, but through re-allocation. This has renewed calls for a re-examination of the funding model for tertiary education – a re-examination which takes account of the needs of students at the poorer households, the increase in the demand for tertiary education, and the country's long-term and current fiscal challenges.

1. BACKGROUND

Historically, the subsidy to tertiary education in Jamaica has been skewed heavily towards the University of the West Indies, which for long occupied a virtual monopoly on research and education at that level. The university was created in 1948 in no small part to train a class of leaders, policy-makers and professionals who could lead the nation into its independence. Equally, the university was to conduct the research needed to address the challenges posed to the country's development, in order to

generate solutions that would accelerate economic growth.

Despite the frequent criticisms that are leveled at it by some elements of civil society, UWI Mona's half-century history has been a largely distinguished one, and it is frequently given a good deal of the credit for the country's strong developmental performance in areas like health, owing to the role played by its medical school. However, in recent years, the emergence of other institutions of higher learning, the increasing globalization of tertiary education, and a sense that the university has been underperforming – whether in a perceived failure on the part of some employers to provide them with graduates with the skills they seek; or whether due to an apparent stagnation in its research productivity – has led many to call for a reconsideration of the funding model that has prevailed over the last couple of generations. Some believe that a more competitive and diversified marketplace for higher education might lead to an improvement in the overall product.

2. THE RATIONALE FOR PUBLIC SPENDING ON TERTIARY EDUCATION

The goals served by the subsidy to tertiary education are both economic and social. **Economically**, received wisdom suggests that education spending yields higher growth rates. Furthermore, universities do not only produce graduates. The research which will build a country's technical capacity, a vital output of tertiary institutions, has high externalities that cannot be captured in user fees. However, because it is essential to national development, government has a strong interest in making this investment – the increased tax revenues that would result from higher growth and greater efficiency will easily come back to it.

Socially, the argument for public funding of tertiary education is even more straightforward. Because of the capital-intensive nature of tertiary education, the cost is high. A market-based approach thus runs the risk of excluding less prosperous citizens. Education investment is thus an important means for a society – especially one which, like Jamaica, has a history of severe income inequality -- to narrow the class gap (something which itself is actually conducive to faster growth).

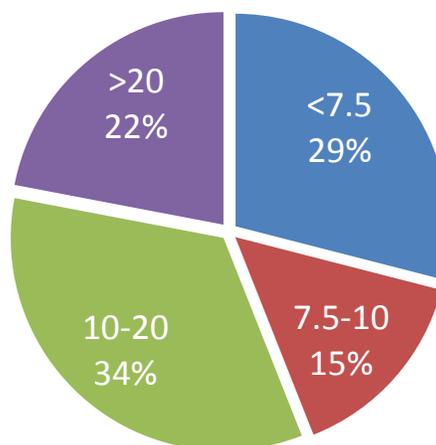
3. IS THE EXISTING MODEL SOCIALLY PROGRESSIVE?

A seemingly persuasive argument for direct subsidies to tertiary education is that it gives children from poor homes the opportunity to move up the social ladder. While this is an article of faith within institutions of higher learning, empirically, the case is not actually that strong. While the

self-perception of university students in just about any society is that they come from relatively modest backgrounds, in fact, in objective terms the general rule is the opposite. In this regard, Jamaica is no exception.

Let us begin with the assumption that the tendency to borrow money to go to school will rise as the household income of a student decreases (since those with sufficient income or savings will cover the cost of education from their own resources). Therefore, one will assume that the subset of students who borrow money from the Students' Loan Bureau (SLB) will be among the less prosperous of those enrolled in tertiary institutions. Data from the SLB reveal that, in 2007, only 29% of recipients came from low-income homes (defined as having a weekly income under \$7,500 per capita). Over half came from high-income (over \$20,000/week) or high middle-income homes (Chart 1: Income in \$000s; Source: Student's Loan Bureau). In short, the average

1. Income Distribution of SLB Applicants



student in tertiary education in Jamaica is above-average in comparison to the per capita earnings of most Jamaicans.ⁱ So too, he or she is likely to go on to earn more than the average person who does not or cannot gain access to higher education.

And yet, tales abound of students who must forego opportunities at higher education, or who suffer nutritional disorders due to the sacrifices they must make to attend university. These are not apocryphal. They point to a paradox: the Jamaican system of subsidizing university fees indiscriminately, results in a situation in which most get more assistance than they need, whilst those who really need it do not get enough.

4. IS THE JAMAICAN ECONOMY BENEFITING FROM ITS INVESTMENT IN TERTIARY EDUCATION?

As for the benefits that will accrue to society from a good public education system, Caribbean countries suffer from an acute brain-drain. No region has a higher rate of emigration of tertiary-educated graduates, and Jamaica is near the top of the table. Over four-fifths of Jamaica's university graduates leave the country, a rate of emigration surpassed by only two other countries in the world.ⁱⁱ Most of these head off to Canada, the U.S. or to a lesser degree, Britain. In the U.S., for instance, the share of the Caribbean population which has a university degree is more than double the share back home. In effect, therefore, the funding policy of the Jamaican education sector can be said to be providing a direct

subsidy to the economies of the industrial countries.ⁱⁱⁱ

5. CUTTING PUBLIC FUNDING IS NOT THE SOLUTION

If the Jamaican economy is to become knowledge-intensive, it will need to expand its pool of university graduates. If anything, therefore, government policy should be geared towards widening, not narrowing, the pool of university graduates.

And given the current operation of financial markets in Jamaica, in which loans must generally be secured, a privately-funded higher education system would risk marginalising those Jamaicans who come from modest backgrounds but have made it to university or college by dint of their talent and hard work.

Finally, teaching is only one of the services delivered in higher-education institutions. Research, which is essential to a country's cultural well-being, to its economic competitiveness, and to its policy formulation, is a function in which the government retains a strong interest.

6. AN ALTERNATIVE APPROACH

One possible way to reconcile these competing imperatives, therefore, is with a funding model which, first, separates research from teaching, and second, shifts the burden of expenditure for teaching towards the principal consumers – the students – but in such a way as to enhance access and expand higher education.

Separating Research from Teaching

Research is a function in which there are substantial externalities which bring great benefit to a country. Government therefore retains its interest in directly subsidizing research. But it may be useful to a government to fund research not through direct subsidies to educational institutions, but through grants to researchers and the institutions in which they work. These could be secured through competitive bidding to government funding agencies. This would permit the government to set broad, transparent policy goals which the granting agencies should serve in the allocation of funds. All the same, if research is to abide by global standards, government must keep a distance from the agencies, setting budgets and parameters, but in no way influencing the allocation of grants, whether to institutions or individuals. Equally, it is important that the government not focus too narrowly on matters of economic efficiency when setting policy goals. Such things as a vibrant literary culture, to use but one example, are important to a people's well-being, and the establishment of such broader goals must also be among the government's priorities.

On the assumption that some tertiary institutions will succeed in attracting a significant part of their budgets from research grants, the shift to a private model of funding for teaching would not necessarily lead to students suddenly having to assume the expense of what is sometimes called full economic cost; the ratio would be smaller than that currently used in institutions like UWI Mona when determining what

share of their education students currently pay for. Nevertheless, the increase in tuition fees could be substantial.

Providing Loans for the Cost of Education

To enable students to absorb this expense in such a way as to actually increase the number of students who could avail themselves of higher education, government could provide full loans to students for their education, but on terms more generous than the existing regime. Either through its own loan bureau, or through guaranteeing loans provided by private banks, the government would "up-front" the cost of a student's education, paying all interest for the time the student is in school (including post-graduate studies), and for a short transitional period after education has been completed and the candidate is seeking employment.

For this model to function effectively, it would be imperative for the government to create a credit bureau. Upon graduation, students who migrate would then assume the full cost of their loan, and default rates would presumably be low: university graduates who migrate would be highly likely to be legitimate migrants, operating in the formal economy, and thus with a comparatively low propensity to default. Their loan repayments would then provide future revenue which the government could use to expand its loan programme.

The government has a strong interest in keeping graduates at home, though. One way to do this would be for the government, through either tax concessions or the assumption of payments, to

assume the burden of payments for as long as the graduate remains in Jamaica. Should the graduate migrate prior to the date's amortization, he or she would assume the burden of the remaining debt. However, were a graduate to remain in Jamaica through the full term of the loan, he/she would have effectively availed him/herself of a free university education. Yet it is likely that the government would make back the cost of this direct, ex post subsidy through the higher tax revenues that would attend a more dynamic economy (the result of more graduates staying at home).

Endnotes

i Furthermore, the difference is probably much greater than the reported figures since student loan applicants have an incentive to under-report household income.

ii Frederic Docquier and Abdeslam Marfouk, 2004: *Measuring the International Mobility of Skilled Workers (1990-2000)*. Washington, DC: World Bank, Policy, Research Working Paper WPS 3381. See Table 2 for details.

iii Docquier and Marfouk.

The Caribbean Policy Research Institute (CaPRI) has done research on educational reform in Jamaica and has hosted a number of policy fora with key stakeholders from the education sector in the country.