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Universities for a thriving New Zealand: Contributing to Economic Growth

On behalf of the New Zealand taxpayer, the Government invests just over \$1 billion a year in our universitiesⁱ and a similar amount in financial support for university students. Regardless of the economic environment – whether tough economic times or more prosperous times - we are all entitled to ask, “What value does New Zealand get for its investment in universities?”

As the representative body for the universities, Universities New Zealand – Te Pōkai Tara (Universities NZ) commissioned the New Zealand Institute for Economic Research (NZIER) to undertake an analysis of universities’ contribution to economic growth. Universities NZ is making NZIER’s report entitled *The Economic Value of University Investment* available to provide input into answering the important question above. The report demonstrates the economic pay-off from investing in universities. Universities NZ believes that it supports the government’s decision to identify lifting educational performance as one of the key drivers of economic growth.ⁱⁱ

Universities’ contribution to economic growth is an important part of their role, but it is only one part. Universities NZ also recognises the contribution universities make to our cultural, social and environmental well-being and our international connectedness.

A brief summary of NZIER’s findings follows.ⁱⁱⁱ

Universities boost economic performance

It is already well-established that education improves labour productivity by increasing skills. It also increases the size of the labour force over the long term because graduates have higher rates of labour force participation.

To assess the actual economic impact of universities, Universities NZ asked NZIER to model the effect of investing an additional \$40 million in each of the next five years in university education (\$200 million in total). Injecting a temporary ‘shock’ like this enables us to see how the effects flow through the economy, how long it takes for the effects to be felt, and how long they last.

NZIER found that for an additional \$200 million investment spread over the next five years

There was a permanent increase in GDP of 0.12% (\$370 million per year every year) by 2025

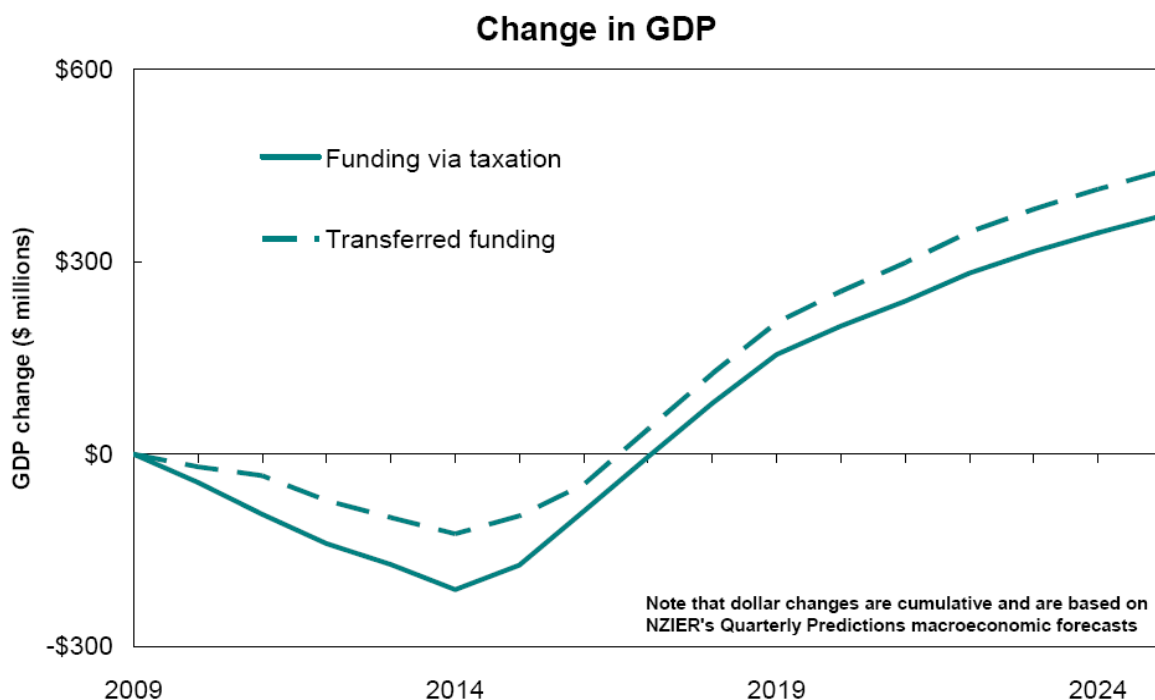
Private consumption – the increased spending power of consumers – also increased by 0.029% (\$44 million per year) by 2025

Within 15 years, the additional investment in universities was returning 1.85 times the value in GDP every year.

The price of these long-term ongoing productivity improvements was a short-term contraction in the economy as people are taken out of the workforce and into university study. This short-term contraction is more pronounced in times of high employment.

How can we fund the increased investment?

The NZIER report assessed the effectiveness of three sources of funding for the increased investment in the universities: taxation revenue, government borrowing and transferring investment from lower level (sub-degree levels 1-3) tertiary provision. The graph below shows the difference between funding the investment from taxation and transferring it from lower level provision.



NZIER found that

A revenue-neutral transfer of funding from levels 1-3 qualifications to degree level study showed a permanent boost in GDP of 0.15% (\$440 million per year) and an increase in private consumption of 0.23% (\$340 million per year) by 2025

Funding the investment from borrowing gives an initial benefit from the additional money circulating in the economy, but costs the country an additional \$71 million in the longer term

Focussing funding on increasing the numbers of people completing undergraduate degrees rather than sub-degree qualifications achieves the highest return

Summary of Results

	Scenario 1	Scenario 2	Scenario 3
Funding source	Taxation	Borrowing	Transfer from level 1-3
Cumulative changes by 2025			
Percentage change in GDP	0.12%	0.12%	0.15%
Change in GDP	\$370 million	\$370 million	\$440 million
Percentage change in consumption	0.029%	-0.018%	0.23%
Change in consumption	\$44 million	-\$27 million	\$340 million

Source: NZIER

Research also boosts productivity

Other studies have demonstrated that increasing skills and qualifications have a greater impact on productivity when they are combined with capital investment, research and more effective technologies^{iv}. NZIER based its findings on the assumption that

Research generates new technologies that lead to productivity benefits across a range of industries

Higher research grants to universities start to show up in productivity increases across the economy by 2015

Universities undertake the bulk of New Zealand's fundamental research, employ half of the country's research staff and produce 50% of public patents. It is the application just as much as the discovery that drives researchers. All of New Zealand's universities have commercialisation arms which focus on connecting research expertise to business users. The universities are co-operating with BusinessNZ, with the support of the Tertiary Education Commission, in a nationwide series of events over 2010 and 2011 to strengthen business connections to university research.^v

ⁱ Student Achievement Component (EFTS) funding 2010/2011 financial year

ⁱⁱ Hon Bill English, Minister of Finance, Speech to the New Zealand Council for Infrastructure Development, 11 August 2010

ⁱⁱⁱ NZIER's report *The Economic Value of University Investment* is available on request from Universities New Zealand – Te Pōkai Tara, P O Box 11915, Wellington 6142 or at www.universitiesnz.ac.nz

^{iv} David Earle, *Tertiary education, skills and productivity*, Tertiary education occasional paper 2010/01, Ministry of Education, January 2010

^v More information on the Creating Stronger University -Business Partnerships events can be found at www.universitiesnz.ac.nz or by contacting Anna Hamilton-Manns, anna@hamiltonmanns.co.nz.