Analysis

Can't pay, won't pay

How best to widen university access - by abolishing fees, as the Tories suggest, or by enhancing student loans, as the government plans?

Nicholas Barr
Thursday June 12, 2003
The Guardian

Universities have many purposes in a modern society but two especially stand out: promoting national economic performance and - a fundamental part of the government's commitment to a fairness agenda - widening access. The question is how best to do so.

Not by abolishing fees, as the Tories have recently proposed. Relying on taxation has at least three problems. First, paradoxically, it creates a shortage of resources. It is a tried-and-tested political reality that mass, good-quality higher education always loses out to the NHS and schools.

Second, tax funding in Britain has failed the poor. Last year only 15% of children from poor families went to university, compared with 81% of the children of professionals. In the US, where universities do charge fees, 43% of those from the bottom quarter of the income distribution participate in higher education.

Third, tax funding redistributes towards the better-off. Beyond a certain point, subsidising higher education is like subsidising champagne - nice for those who can get it, but not what the budget is for. Many people would welcome a more progressive tax system, but the fairness agenda suggests that the extra money should be used on pre-school education; to raise the staying-on rate post-16 (which is where the biggest barrier to access occurs); to improve vocational education and to restore a generous grant for poor students - not for subsidising the best and brightest who disproportionately go on to become the richest.

The Tory proposals prove the point. They propose to abolish all tuition fees, financing the change by cancelling about £200m of planned pro-access spending and by keeping student numbers constant, in contrast with the government's plans to expand participation by 7%.

However, the numbers do not stand up. The results of a simulation model show that the proposals run a cumulative deficit of £1.6bn over the first five years. That deficit, moreover, leaves out the 7% of the age group who do not go to university under the Tory proposals. There is mention of vocational training, but no mention of the costs of that training. The proposals also ignore the rising number of young people.

The deficit puts downward pressure on quality, on student numbers, or both. Funding for each student could be held constant if over the first five years 79,000 people (150 students in each of the 529 parliamentary constituencies in England) did not go to university - and, if fees are phased out rapidly, the total could reach 150,000 students. Given the rising number of young people, if student numbers decline by 79,000, the participation rate will fall from its current rate of 43% to between 36-38% in 2010.

This matters because technological advances mean that we need larger numbers of more highly trained people - a policy that puts downward pressure on quality and on student numbers is a policy designed to make our international competitors quietly snigger.

The Tory proposals are also offensive to anyone who cares about fairness. A smaller system is harder for people from poorer backgrounds to get into. And it is worse if a shortage of places harms the staying-on rate post-16 by dampening aspirations. In addition, the proposal explicitly withdraws extra resources to promote access.

As well as harming access, the proposals are overtly regressive. They exempt better-off people and pay for the exemption by reducing transfers to poorer people and by shrinking the system.

The white paper on higher education, published in January, does exactly the opposite. Its underlying principle is that those who can afford to pay more do so, raising considerable resources to finance improved quality and pay for a genuine pro-access strategy.

To see why the white paper promotes access it is necessary to understand how the system of student loans, introduced in 1998, transforms the landscape in ways that are still insufficiently understood. Loans now have income-contingent repayments, that is, a percentage of earnings is collected as a payroll deduction alongside income tax. Thus repayments instantly track changes in earnings: low earners make low (or no) repayments, and people who never earn much do not repay their loan. Thus the loan - like a graduate tax - has built-in insurance against inability to repay.

Tuition fees under the white paper are no longer up-front charges, but are deferred because they are fully covered by a loan. Thus higher education is free at the point of use. The strategy is progressive. It shifts resources from today's best-off (who lose some of their tuition subsidies) to today's worst-off (who receive a grant) and tomorrow's worst-off (who, with income-contingent repayments, do not repay their loan in full).

The danger is that people might see deferred charges as equivalent to credit card debt (high interest rate, short repayment period, no protection against low income) rather than as a future payroll deduction. The people who understand the reality are graduates who have started to repay, but there are not many of them yet because the scheme is still new.

Greater awareness is needed of three points about the white paper. First, student loans are a payroll deduction, not debt. Second, students get their higher education free - it is graduates who make repayments. Finally, if it is unfair to ask graduates to pay more of the cost (as the proponents of tax funding argue), it is even more unfair to ask non-graduate taxpayers to do so.

· Nicholas Barr is professor of public economics at LSE.

More can be found at econ.lse.ac.uk/staff/nb/barr_HE_option030610.pdf