NICHOLAS BARR

Variable fees are the fairer route to quality

A sensible strategy to improve quality in and promote access to universities has three main components.

The first is variable tuition fees, capped at £3,000. This is in the higher education bill, which is to receive its third reading in the House of Commons tomorrow.

The second component is loans that cover tuition fees and realistic living costs. This too is in the bill, which includes a loan to cover fees, abolishing the current upfront charge. It also increases the loan for living costs. Thus university is largely free for students – it is graduates who make repayments. Those repayments are not like credit-card debt; instead, a payroll deduction of 9 per cent of earnings above £15,000 is collected alongside income tax.

The third component – again in the bill – is action to promote access. The bill incorporates an access package that includes a grant of £2,700 a year for students from poor backgrounds, plus support from universities.

The bill, in short, is a genuine strategy, much of it uncontentious, but with fierce controversy about the first element, variable fees. Why are they so important, and why so much better than charging the same fee for all degrees at all universities? Because variable fees are fairer, and because they contribute to a university system fit for an internationally competitive era. Flat fees fail on both counts.

Variable fees are fair, first, because they release resources to promote access. One of my earliest newspaper articles criticised the 1974 Labour government for restoring universal milk subsidies. The aim was to help the poor, but the subsidy was worth more to the middle class because they drank more milk. It would have been much more progressive to charge an unsubsidised price and to use the resulting savings to increase pensions, child benefit and income support.

The bill adopts the latter strategy. It combines somewhat higher charges for those who can afford them (where "can afford" refers to earnings as a graduate, not family income while a student) with policies that help poor people directly. Flat fees misdirect resources in the same way as milk subsidies.

> Variable fees are fairer, and contribute to a university system fit for a globally competitive era. Flat fees fail on both counts

Second, variable fees are directly fairer. Flat fees force Bash Street College to charge the same fee as the University of Oxford for all its activities, including courses for which it might want to charge less. This is outrageous. The milk subsidy was bad enough, but at least everyone got broadly the same quality of milk. With higher education, mandating a uniform fee is like taxing beer to subsidise champagne.

Third, variable fees open up the possibility of redistribution within higher education. With flat fees, the total volume of resources going to the sector is fixed by the Treasury. Thus Oxford and East London University compete for the same pot of money. Variable fees start to tackle this gridlock.

Fourth, the failure to pay universities the rate for the job has created an incentive to replace home students by overseas students, who pay full-cost fees. By reducing those incentives, variable fees create more places for home students. Flat fees perpetuate discrimination against home students.

Fifth, the access regulator's only real power is to forbid a university with a poor access record to increase its fees. Flat fees remove this power.

As well as being fair, variable fees assist quality by strengthening competition. This argument is not based on ideology: competition is beneficial only where consumers are well enough informed – a line of argument that gives a robust defence of the National Health Service and state school education. But with higher education, students and employers are generally well informed. The bill, moreover, does not create a market, but a regulated market: universities have more freedom, but are constrained by the Higher Education Funding Council, the access regulator and – crucially – the fees cap. In those circumstances competition improves quality by making universities more responsive to the needs of students and employers. To maintain otherwise is to argue that, even with extensive regulation, students (the best and the brightest by assumption) are unable to choose sensibly.

Fairness is central. But to fight variable fees for reasons of fairness is to fight entirely the wrong battle. The bill is not perfect. More needs to be done on outreach to schools, and the badly targeted blanket interest subsidy on student loans will need eventually to be refined. But the past is no longer on offer, and the bill is a coherent, forward-looking package. If it fails, the damage will be to both future students and the broader national interest.

The writer is professor of public economics at the London School of Economics