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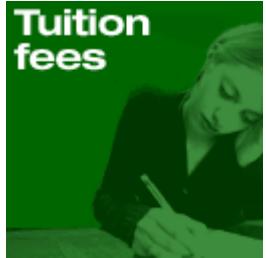
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Myth or magic?

Nicholas Barr and Iain Crawford, architects of the top-up fees policy, argue that their critics in and outside the Commons are harming the very causes they mean to support. The government's approach is the most progressive way to provide higher education free at the point of use and redistribute resources to the worst off



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[The Guardian](#)

We all want to strengthen the quality of higher education and improve access. But there are widespread misunderstandings about the government's proposals to do so.



Misunderstandings about tax funding:



The proposals rightly incorporate a large and continuing taxpayer contribution to higher education because of its social benefits. But that process can go too far.

"Free" higher education fails on quality. There is universal agreement that universities are underfunded. As the last 40 years show, higher education always loses out to the national health service and schools.

Free higher education also fails on access. Last year only 15% of children whose parents are manual workers went to university, compared with 81% of the children of professionals.

Free higher education redistributes to the best-off. Some 82% of British working-age adults have not been to university. Getting them to pay the lion's share of higher education is like subsidising champagne. Many people would welcome a more progressive tax system. But the way to spend the extra money is not on the best and the brightest who mostly go on to become the richest, but on strengthening pre-school education and nutrition, raising the staying-on rate post-16, improving vocational education, and restoring generous grants.

So, the zero fees option - advocated by the National Union of Students, the Liberal Democrats and, recently, the Conservatives - fails to achieve a single desirable objective.

Misunderstandings about flat fees.

Some people argue that fees should be the same at all universities. This approach makes sense if all degrees are the same, but overlooks the need for today's higher education to be much more diverse than it has been historically in terms of subject, approach (academic or vocational), part-time or full-time. Thus degrees - rightly - are different.

Separately, it is self-deluding to pretend that all degrees are equally good - students with the best A-levels apply to Oxbridge and similar universities, not to their local college. Policy based on this pretence is bad policy. What really matters is not the instrument - fees - but the outcome: that bright people from poor backgrounds should be able to go to the best universities.

Given the faulty initial assumption, it is not surprising that flat fees fail both on quality and fairness. They perpetuate Treasury control, denying universities an independent source of finance and exerting downward pressure on quality. The risk is that the world's great universities will end up concentrated in America.

Flat fees are also inequitable.

Unfair 1: They give the largest subsidy to the best universities, which have the highest proportion of middle-class students.

Unfair 2: They impose the same charge at Balls Pond Road College as at Oxford - Labour backbenchers should find this outrageous - and lead to the absurd situation where Balls Road is legally prevented from reducing its charge.

Unfair 3: Flat fees discriminate against UK students by giving the best universities an incentive to recruit overseas.

Unfair 4: They prevent redistribution within higher education: if some universities can be more self-financing, resources can be redirected to institutions with more remedial teaching, for example through the Higher Education Funding Council's widening access premium.

Unfair 5: The Office for Fair Access loses its only powerful weapon - the right to withhold permission to raise fees.

Misunderstandings about the type of debt:

If the government's proposals left students with large credit card-type debt - high interest rate, short repayment period and enforced repayment, even if earnings are low - we would join Labour backbenchers on the barricades.

But that is not the proposal. Income-contingent loans, introduced in 1998, transform the landscape in ways that the government has not done a good job in explaining. A graduate repays 9% of earnings above £15,000, so that someone earning £18,000 repays £270 per year, or £5.20 per week.

Thus loans have inbuilt insurance against inability to repay. Low earners make low or no repayments, and people who never earn much do not repay their loan.

This is not credit card debt, but a payroll deduction. A picture of a graduate's payslip would make this clear.

By abolishing upfront fees, the proposals make higher education free for students. When someone goes to university, the Student Loans Company squirts money into their university's bank account for their fees and into their bank account for living costs. When they leave university, the graduate is faced with a payroll deduction.

We pay national insurance now to finance our pension later; income-contingent higher education contributions are exactly analogous.

Misunderstandings about the size of the debt:

Many students and parents are scared by talk of up to £20,000 debt. But that figure should be seen in context. It seems large because we think of expenditure on a weekly basis, so that cumulative totals seem shocking. But over a full career a typical graduate will pay about £850,000 in income tax and national insurance contributions and will spend half a million pounds on food. Quite rightly, nobody loses sleep over a career tax debt approaching £1 million because he/she looks at the figure through the other end of the telescope, in monthly terms. Student debt - given income-contingent repayments - is no different.

Misunderstandings about variable fees and access:

If the proposals were simply to allow variable fees we would, once more, be on the barricades. But the proposals have two mutually supporting elements. First, they bring in variable fees, but those fees are deferred and paid only by those who can afford to pay.

Second, part of the resources released by those fees is targeted on people for whom access is fragile, precisely so bright students from poor backgrounds can go to the best universities.

As a result the strategy promotes access. Flat fees (let alone no fees) try to promote access by subsidising higher education for everyone; this spreads subsidies thinly, and largely on people who do not need help. Variable fees are fair. First, because they release resources to promote access for those who need help most. Second, they facilitate redistribution within higher education. And third, they allow expansion of UK student numbers.

The strategy also assists quality. Funding becomes open-ended: if tax funding falls, each university has a policy response under its own control. In addition, the approach creates incentives for institutions to respond to the demands of students and employers, thus contributing to diversity, choice and quality, and also to access because institutions will face incentives to provide more part-time degree options.

The combination of income-contingent loans, deferred variable fees, and measures to promote access, makes the government's proposals deeply progressive. Higher education is largely free at the point of use. The strategy 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).

That does not mean that the proposals are perfect. They should be made even more progressive through larger grants and higher maintenance loans. A well-designed package to promote access would also raise the staying-on rate post-16, which is where the real barrier to access occurs.

• Nicholas Barr is professor of public economics and Iain Crawford is a research fellow at the London School of Economics. For fuller discussion, see
http://econ.lse.ac.uk/staff/nb/Barr_Selcom030311.pdf

The battles ahead

Ministers will have to fight the passage of the higher education bill line by line through the Commons then the Lords. Among the key skirmishes will be:

The level of fees

A lot of Labour backbenchers and the opposition parties want the level to be zero - though the Liberal Democrats have signed up to the principle of graduate contributions in. Figures of £2,000 and £2,500 have been put forward by Labour MPs as alternatives to the government's £3,000 maximum. Many universities - particularly in the Russell group - view £3,000 as far too low (especially by the time the new fees are due to start in 2006) and the new universities say they expect to charge the full amount, despite the government's desire to create a market.

Variable or fixed fees

A "plan B" for fees to be levied at the same level across all universities and all courses has been put forward by two Labour MPs, Peter Bradley and Alan Whitehead, following similar proposals from Anne Campbell, another member generally loyal to the government. They argue that lower fixed fees would raise just as much funding as the government's proposals but would not widen the gap between prestigious universities able to command higher fees - and so better staff and facilities - and the rest. This is backed by the higher education colleges and has a good deal of support among the new universities, despite the official line of supporting the government from Universities UK which represents the vice-chancellors. Possibly the weakest link in education secretary Charles Clarke's armour.

Bursaries

Ministers must show that poor students will not be worse off and are trying to do this by lumping together the current fee waiver - about 40% of students don't pay the current £1,125 upfront fee - with maintenance grants. More concessions can be expected and universities are being pressured to devote a third of their new fees to bursaries. Richer universities want to devise their own schemes. Poorer institutions (which tend to have more poor students) would like a national bursary

scheme - as proposed by Bradley and Whitehead.

Repayments

Under the present loans scheme, graduates start repaying when they earn £10,000. The government is raising this to £15,000 and will be making much play of the fact that a graduate earning £18,000 will have weekly repayments of £5.19 a week - the "cost of a couple of pints" in the words of Universities UK president Ivor Crewe.

The Office for Fair Access

Offa is a sop to the Labour backbenches from Clarke, who is anxious to convince them that elite universities will really open up to students from disadvantaged backgrounds. Universities, however, view it as a bureaucratic monster.

University titles

Clarke and higher education minister Alan Johnson should not underestimate the potential for trouble, especially in the Lords, over who can call themselves a university. Vice-chancellors and lecturers' unions are strongly opposed to relaxing the rules to allow colleges without research degree awarding powers to gain university status. Why? It's not really an argument about PhD regulations but about the government's plans to concentrate research funding on an elite.

The Arts and Humanities Research Council

Finally something everyone can agree on - making the arts and humanities research board a grown-up council.

Donald MacLeod

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