

Making universities UNIVERSAL



How do you fund university education? In the UK, the government plans to introduce variable fees from 2006, to be paid back after the student graduates, but the debate continues worldwide. What is the best solution, offering what people want but at a realistic price? **Nicholas Barr** offers his analysis.

The terms of the debate about financing higher education are largely self-evident. Everyone agrees on the core problems. Universities in most countries are underfunded, many students are poor, and the proportion of students from disadvantaged backgrounds is a major concern. Higher education finance matters: getting it wrong puts national economic performance at risk and sells the poor down the river.

There is also considerable agreement in most countries about core objectives: strengthening the quality of higher education, and improving access.

The policy to achieve those objectives has three elements. The first is variable fees, highly controversial in Western Europe but less contentious in Central and Eastern Europe, and taken for granted in the USA and many countries in Asia. Fees give universities more resources to improve quality and, through competition, help to improve the efficiency with which those resources are used. That is not an argument for law of the jungle competition but for regulated markets.

Paradoxically, variable fees are also fairer. The majority of students are from better-off backgrounds; thus undue reliance on taxation means

that the taxes of the truck driver pay for the degrees of people from better-off backgrounds, degrees that will further increase their economic advantage.

Many would agree that higher education is a right, but it does not follow that it must always be free. Food is a right, yet nobody demonstrates outside shops or restaurants. Another confusion is between social élitism, which is abhorrent, and intellectual élitism, which is both necessary and desirable. There is nothing inequitable about intellectually elite institutions. The access imperative is a system in which the brightest students can study at the most intellectually demanding institutions irrespective of their socio-economic backgrounds.

The obvious argument against higher fees is that they will deter students from poorer backgrounds. That is true of upfront fees, but not true where students go to university free and make a contribution to fees only after they have graduated.

This brings us to the second element in the strategy – well-designed student loans. Many countries now have loans in a variety of forms.

Student loans should have two core characteristics. They should not be organised like a mortgage or bank overdraft, but should have income



contingent repayments – that is, repayments calculated as a percentage of a graduate's earnings and collected alongside his or her income tax. Second, the loan should be large enough to cover tuition fees and realistic living costs.

Such a loan package has profound implications. It eliminates upfront fees (the student loans administration sends the fee payment directly to the university), making higher education free at the point of use. It ends student poverty, unimpaling students from forced reliance on expensive credit card debt and allowing them to choose how much part-time work they do. And it is simple to understand.

Even more fundamentally, at the time of use and at the point of need, the loan package is equivalent to free higher education. All students are entitled to the full support package, hence no-one is forced to pay anything at the time they go to university. Part of the cost is paid from taxation and part through income contingent repayments, which differ from tax in only two ways: they are paid only by people who have been to university and benefited financially from their degree; and they do not go on for ever.

This is not a cheap intellectual stunt – adequate and universal income contingent loans are logically equivalent to free higher education financed by an income-related graduate contribution. Herein is the essential core of the solution.

The first two elements in the strategy free the resources to pay for the third – active measures to promote access. There are two causes of exclusion: financial poverty and information poverty. Any strategy for access needs to address both.

Measures to address financial poverty include:

- Targeted financial assistance above the minimum school leaving age. Education Maintenance Allowances in England and Wales offer a £30 weekly allowance plus periodic bonuses to pupils aged 16 or over who keep to the terms of a learning agreement with their school or college.
- Scholarships to cover some or all costs at university. These exist in many countries.
- Both policies could be supported by financial incentives to universities to widen participation, and by extra resources to provide additional intellectual support at university for students from disadvantaged backgrounds.

A second set of money measures supports access by offering assistance for people with low incomes after graduation.

- Targeted interest subsidies could freeze the real value of the debts of people with low earnings, including people who are unemployed.
- People with low lifetime earnings could be protected by writing off loans not repaid after 25 years.
- The loans of public sector workers could be progressively written off (in Britain, 10 per cent of the loan of new teachers in shortage subjects is written off for each year in the state system).
- People caring for young children or elderly dependants could be granted loan remission.

Information poverty, the second strategic impediment to access, is inadequately emphasised. Action to inform school children and raise their aspirations is critical. The saddest impediment to access is someone who has never even thought of going to university.

Finally, problems of university access cannot be solved entirely within higher education. More resources are needed earlier in the system, not least because of the growing evidence that the roots of exclusion lie in early childhood.

The three elements offer a benchmark against which countries can assess their status. The USA does well on the first element (variable fees) but less well on the second (loans are not income contingent, nor collected as a payroll deduction) and third (where scholarship arrangements are criticised as being parsimonious and complex). Canada, too, might consider action on the second leg. Australia has partially liberalised fees, but its loan scheme, though with income-contingent repayments collected by the tax authorities, does not cover living costs for most students. New Zealand came close to getting all three elements right in the 1990s but lost political support by moving too fast. Most countries in mainland Western Europe and the Nordic countries have yet to address the vexed politics of fees.

This is regrettable. The strategy simultaneously enhances quality and increases fairness. It is educationally, fiscally and administratively sound. It should form the core of any reform proposals. ■



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is Professor of Public Economics. More of his articles on the role of fees and loans can be read at <http://econ.lse.ac.uk/staff/nb>. *Financing Higher Education* (Routledge) by Nicholas Barr and Iain Crawford will be published in January 2005.

LSE and fees

The School has taken the decision in principle to charge variable fees of £3,000 from October 2006. The formal approval for this has been recognised by the Council, LSE's governing body, which includes student, staff and governor representatives.

The School has also decided in principle to channel a third of all money from variable fees towards student support. The Office of Fair Access has recommended that 20 per cent of income from fees should go towards widening participation activities.

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