Financing higher education in the UK: The 2003 White Paper

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Contents

central planner, but the problem is too complex for that to be the sole mechanism: mass higher education requires a funding regime in which institutions can charge differential prices to reflect their different costs and missions.

11. STUDENTS SHOULD CONTRIBUTE TO THE COST OF THEIR DEGREE. There are strong arguments that higher education creates benefits to society above those to the individual – benefits in terms of growth, social cohesion, the transmission of values, and the development of knowledge for its own sake. Those arguments suggest that taxpayer subsidies to higher education should be a permanent part of the landscape. I support those arguments. Equally, however, there is overwhelming evidence that students receive a significant private benefit from their degrees. Thus it is efficient and equitable that they should bear some of the costs. This leads to the third set of lessons from economic theory – the design of student loans.

12. WELL-DESIGNED STUDENT LOANS HAVE CORE CHARACTERISTICS.

- *Income-contingent repayments*, i.e. repayments calculated as *x*% of the borrower's subsequent earnings, collected alongside income tax, are essential. In efficiency terms, they protect the student from excessive risk; and because repayments are collected alongside income tax, they also protect the borrower from the risk of making an unsecured loan. In equity terms, the loan protects access because it has built-in insurance against inability to repay. Income-contingent repayments have a profound effect on higher education finance, one that

Thus, in good Communist tradition, the central planner determines both price and quantity. In the same tradition, third, cont

2.3 Reviving the corpse: the Barr/Crawford proposals[9]

20. Iain Crawford and I have long advocated a strategy with three elements.

21. DEFERRED VARIABLE FEES. Universities should be free to vary their tuition fees, subject to a cap. This brings in additional resources to improve quality, benefiting UK students and restoring the sector's considerable export potential. Students should be helped to pay the charges as described below. Of central importance, charges should be deferred: thus graduates make repayments, not students.

22. Thinking on fees can be muddled. Many people agree that higher education is a right, but it does not follow that it must always be free (food, equally, is a right, yet nobody demonstrates outside shops or restaurants). Another confusion is between social elitism, which is abhorrent, and intellectual elitism, 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 are able to study at the most intellectually demanding institutions irrespective of their socioeconomic background.

23. ADEQUATE AND UNIVERSAL INCOME-CONTINGENT LOANS. The loan should be large enough to cover fees and realistic living costs in full and should be available to all students. This package eliminates upfront fees (the Student Loans Company would send the fee payment directly to the university), so that higher education is free at the point of use, as in Scotland. It ends student poverty. It does away with parental contributions. It is simple for students and their parents to understand. And it is vastly simpler to administer than current arrangements. Even more fundamey wiundrdrlow tha :d-085 0 TD0 Tc-0.0017 Twscussend ir paa. 53,t the p

3 The White Paper strategy

28. Section 3.1 summarises the key funding elements in the White Paper. Seen through the eyes of lurid press coverage, the proposals look horrible – high fees, large debts. That view is thoroughly misleading. The White Paper strategy has two elements, each enormously important.

29. THE STRATEGY REDISTRIBUTES FROM BETTER-OFF TO WORSE-OFF. Those who can afford to pay more do so, releasing resources to improve quality and promote access, where 'can afford' refers to their income as a graduate, not to their family circumstances as a student. This approach is entirely consistent with the first and third legs of the Barr-Crawford strategy.

30. Economic theory is particularly useful at this stage to explain what is going on. The White Paper proposes two sets of actions (see Figure 1):

- A price increase, raising the average tuition fee from p_0 to p_1. This leads to a movement *along* the demand curve from *a* to *b*. Taken alone, this action obviously reduces demand and harms access. However afford ty has t695slyf1 TfrT4 1y cgile a 5 TD0.0045 Tc the White Paper shifts the balance of power from the central planner and the producers to the consumers – the students and employers. Press reports around the time the White Paper was published suggest that the government adopted that strategy deliberately.[11] The argument is explained more fully in section 3.3.

33. Both elements of the strategy depend fundamentally on the prior existence of income-contingent loans and, to that extent, the Student Loans Company, who implemented the scheme successfully to a tight deadline, are among the unsung heroes behind the White paper.

34. Other praiseworthy elements in the White Paper are summarised in section 3.4.

3.1 Summary content

35. The White Paper is wide-ranging. Discussion here is limited to the funding proposals.

36. FEES. The term 'top-up fees' conflates three separate questions: should fees be the same at all universities or different; should students pay fees upfront or deferred; and should universities receive fees upfront or deferred? The White Paper answers all three questions correctly. From 2006:

- Fees will no longer be fixed at £1100 but variable between 0 and £3000, with institutions able to set their own fee levels within those limits.
- However, there will no longer be an upfront charge, since fees will be fully covered by a loan. Thus the proposal is for deferred variable fees.
- Universities, however, will receive the fee income upfront.

37. ACCESS.

- The White Paper brings back a grant of £1000 per year where family income (net of various deductions) is less than £10,000. There is discussion that the grant might be increased and the threshold extended.
- Fee remission continues, as at present. Thus people from poor backgrounds will not pay the first £1100 of any tuition charge. There is discussion of freeing at least some students from the entire £3000 charge.
- An Access Regulator will check that universities planning to charge fees above £1100 have well-designed plans to widen access and carry those plans out.

38. STUDENT SUPPORT.

- The existing arrangements for maintenance loans continue: the maximum loan remains unchanged, and entitlement continues to be income tested, i.e. parental contributions continue.
- Loans attract a zero real rate of interest, i.e. interest subsidies continue.
- The threshold at which loan repayments start will be raised (in 2005) to £15,000.

39. RESEARCH FUNDING will be more focussed, not least to protect the UK research base, to which the White Paper has an explicit commitment.

[11] See 'It's not a struggle for power', *Guardian*, 21 January 2003.

40. PUBLIC SPENDING is set to increase significantly over the next three years.

3.2 The White Paper strategy 1: promoting access

41. This section will conclude by arguing that deferred variable fees are a fundamental element in a strategy to promote access. To clear the ground, it is helpful first to develop three sets of arguments: the real barrier to access is earlier in the system; other ways of paying for higher education are unfair; and there are other ways of thinking about the White Paper proposals.

THE REAL BARRIER TO ACCESS:

48. *It will not happen* **–** dream on. Higher education will always lose out to the national health service, nursery education and school education.

49. *It should not happen*. Higher education confers a benefit on society as a whole and to that extent has received – and should continue to receive – tax funding. Beyond that, however, tax funding is deeply regressive. If the money comes from general taxation, the taxes of the hospital porter pay for the degree of the old Etonian. If it is unfair for 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.

50. The counter-argument is to make direct tax more progressive. In 2003-4, an extra penny in the pound on the higher rate of income tax yields about £1.1 billion. Suppose government raised an extra £2.5 billion that way. The question that proponents of tax funding must then answer is: why should that money be spent on the best and the brightest who will disproportionately go on to become the richest, rather than on nursery education, vocational education, action to improve the staying on rate post-16, and more generous grants?

51. *It is not regressive by accident*. Some people argue that higher education should be treated as a tax-funded social good which a civilised country should offer. This is a beguiling vision, which was possible when higher education was a consumption good for a small number of people. But those times have gone. There are three steps in the argument:

- Technological advance means that mass higher education is essential for national economic performance.
- We live in a free society, so that people can choose how hard to work and can emigrate. Both facts impose limits on taxation, and those limits are reinforced by international capital mobility.
- Mass higher education, which is expensive, plus limited taxation leads to rationing of places and funding. The sharp elbows of the middle class come into play, leading to disproportionate middle-class use. Thus – systematically and predictably – excessive reliance on tax funding is regressive.

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with an income-contingent loan variable. Thus loan repayments can be thought of as a capped graduate tax, i.e. a tax that is switched off once the graduate has paid a set contribution towards the cost of his or her degree.[12] Colloquially, graduates pay extra tax until each has paid his or her 'fair share'.

55. SOCIAL INSURANCE. Yet another perspective is to think of student loans as a modern example of the Beveridge principle. With pensions, we pay national insurance contributions now in order to get our pension later. Pensions are thus an example of consumption smoothing – a device that allows people to redistribute to themselves over their life cycle. Student loans are exactly that – students receive a 'pension' now to pay for their university education, repaid by their own contributions later in life. (It was for precisely that reason that my original (1988) proposal was for income-contingent repayments added on to national insurance contributions rather than income tax).

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stronger competition requires major adjustments by producers and consumers, creating political opposition and problems of adjustment to a new regime.

66. *Universities*. The supply side response is predictable. The White Paper strategy has profound implications for the management of universities. Thus many Vice-Chancellors would prefer a flat fee, albeit a higher one.[13] The elite (Poland, Hungary) welcome the new freedoms, but many institutions are unenthusiastic, seeing the new arrangements as more a threat than an opportunity.

67. *Teachers' organisations*. Again, the view is predictable. I was told by a senior official of the Association of University Teachers that lecturers at Luton and Oxford do the same job and hence should broadly be paid the same. This is like saying that David Beckham and the right-side midfield player at Torquay United should be paid broadly the same since both train four times a week and both play games that last for 90 minutes. It is true that the UK could go back to the days of the £20 per week ceiling on footballers' pay. But if we did, the best players would all end up in Serie A and Primera Division – England and Scotland would never again have a side capable of getting beyond the qualifying stage of the Champions

72. A third welcome element in the White Paper is the use of targeted loan write-offs, an excellent social policy tool. When applied to nurses and teachers, write-offs respond to low pay. If applied to doctors working in the national health service, write-offs could be used to address the issue of large loans resulting from long courses. Interestingly, the resulting incentives are strongest for people with larger debts. Thus graduates of the best universities will have stronger incentives than currently to go into teaching.

4 Making the strategy work

73. The previous section argued that the White Paper strategy is simultaneously equitable, promoting access by transferring resources from better-off to worse-off people, and efficient, promoting competition and hence diversity.

74. This section discusses what needs to be done to make sure that the strategy is translated into action. Section 4.1 suggests actions to promote access; section 4.2 is about ensuring that central planning stays dead; section 4.3 discusses matters for future consideration.

4.1 Actions to promote access

75. Action is needed in at least three areas if the White Paper is to succeed in widening access: (a) publicising *much* more effectively what income-contingent loans mean for individual students, (b) improving further the student support package, and (c) ensuring proper powers and terms of reference for the access regulator.

PUBLICISING WHAT INCOME-CONTINGENT LOANS REALLY MEAN

76. What is needed is a major public education campaign – not glib froth and bubble, but genuine information. It should include the following points.

77. KEY POINT 1: MOST OF THE COST OF TEACHING IS STILL PAID BY THE TAXPAYER. This needs to be stated firmly and repeatedly. Reducing the fee subsidy frees resources for use in better-targeted ways to promote access.

78. KEY POINT 2: INCOME CONTINGENCY CHANGES EVERYTHING. One of the roots of current problems is that David Blunkett responded to the Dearing Report in July 1997, at a time when the Inland Revenue had not yet agreed to collect repayments (which was not decided until November 1997), thus forgoing a golden opportunity to explain why the new loan scheme was dramatically better than the old one. Partly because of that timing problem, the government has been woeful in publicising income contingency; and the absence of such publicity has created a vacuum filled by a misplaced obsession with headline debt figures, fanned by lurid newspaper articles and at time.1(e)i.tt.5bti0Tscreamogening .

IMPROVING STUDENT SUPPORT

87. A parallel set of actions to ensure that the progressive purpose of the White Paper happens in practice is to improve the student support package.

88. IMPROVING THE SYSTEM OF GRANTS. As discussed earlier, students from poor backgrounds may be less well-informed and hence debt averse. Thus grants are an essential element in promoting access.

89. The full grant should be higher and the threshold for eligibility increased. Separate but related, anyone receiving an Educational Maintenance Allowance should automatically receive a grant. This policy promotes access by giving young people certainty at age 16 that they will receive financial support once they get to university; it is also administratively cheaper, reducing the need for a separate income test when a person starts university.

90. Thought should be given to some 'super grants' which pay the *entire* costs (tuition fees and all living costs) for the first year of a degree. Students from poor backgrounds may be unsure about whether university is right for them or about whether they are bright enough to cope. Super grants would give them a free first year, giving them the chance to become well-informed about their aptitudes and prospects. At that stage, students would have more confidence in taking out a loan to cover the rest of their degree.

91. INCREASING THE MAINTENANCE LOAN. The full loan is too small and – separately – the loan continues to be income tested, so that parental contributions remain. Both features are regrettable. Because loans are not enough to pay realistic living costs, many students face a combination of poverty, heavy and expensive indebtedness via credit cards/overdrafts, and excessive hours in part-time work. Debt aversion arises in part because student loans and credit-card debt become conflated in people's minds.

92. The maintenance loan should be increased. However, as discussed in section 4.3, the continuing interest subsidy makes any such move costly. One way out is as follows:

- Suppose realistic living costs outside London are £6000.
- The government should offer *all* students a second maintenance loan of £*X*, where £*X* is the amount that brings a student's total maintenance package to £6000, eliminating student poverty and getting rid of compulsory parental contributions. [15]
- The interest rate on the second loan should equal the government's cost of borrowing.

93. The politics of such a move should not be problematic:

- Students would welcome the improvement in their standard of living.[16]
- They would also welcome the fact that they could borrow at the government's borrowing rate rather than the credit card rate.
- The proposal is *in addition* to the proposals in the White Paper, hence does not make any student worse off than the White Paper. This makes it difficult for the National Union of Students (NUS) to argue against it.

94. OTHER IMPROVEMENTS. Restoring debt forgiveness after 25 years gives well-targeted protection to people with low lifetime earnings; the topic is taken up in section 4.3.

ENSURING PROPER POWERS AND TERMS OF REFERENCE FOR THE ACCESS REGULATOR

95. Improving access has various dimensions including (a) increasing the aggregate number of people from poor backgrounds at university and (b) improving their distribution across universities. Different mechanisms are needed for each of these tasks: incentives much more likely to deliver the policy objectives than excessive use of regulation and bureaucratic forms of control.

96. Defining the access regulator's powers and terms of reference is therefore complex, and should take cognisance of points like the following:

- Universities can decide to whom to make an offer but cannot control who actually turns up (many applicants do not meet the conditions). The access regulator might therefore want to focus on offers as well as registrations.
- Universities have little information about applicants' backgrounds. Perhaps the regulator should ensure that UCAS collects the necessary data and, subject to safeguards, that universities have access to it.
- What variables should the regulator use to define targets: social class, type of school, race? If all are relevant, what are the relative weights for each?

97. Some of the regulator's tasks are clearer.[17] One is to ensure that a system of credit transfer is in place. Second, the regulator should mandate universities to publish on their web site timely and accurate data allowing prospective students to make informed choices. Those data should include dropout rates and the fraction of graduates who find relevant employment within a given period after graduation.[18] Such transparency has two sets of benefits: information enables students to make better choices; and information is generally a more powerful and cost-effective form of quality assurance than bureaucratic procedures.

98. A third suggestion is that the regulator's web site should show current and past public spending on higher education in a form intelligible to the wider public. This does not prevent the government clawing back taxpayer funding as fee income rises, but ensures that such changes are transparent. Universities should be transparent to assist the choices of the public; so should government.

4.2 Ensuring communism stays dead

99. The second leg of the White Paper strategy is a more competitive environment for higher education. Ensuring that the policy intent takes place requires (a) consideration of the fees cap and (b) a sustained real funding increase over the medium term.

RELAXING THE FEES CAP

100. The fees cap 'will apply throughout the life of the next Parliament, and it will rise annually in line with inflation so that it keeps its real value' (White Paper, para. 7.31).

101. The fees cap needs to be:

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[17] This is a very incomplete list, intended only to illustrate useful areas of action.

[18] While the policy is clear, its implementation requires much careful work, the difficulty of which should not be underestimated. That does not mean that the work should not take place, but that the task should be regarded as ongoing, not one with a speedy once-and-for-all solution.

- High enough (a) to pay the best universities the rate for the job and (b) to bring in competition.
- Low enough (c) to ensure that the White Paper proposals are politically sustainable: the issue here is to give students and their parents time to adjust, and (d) to give universities time to put in place management suitable for a competitive environment.

102. Given these criteria, the initial cap of £3000 is probably right. However, its duration – the life of the next Parliament – is too long. If the cap is too low for too long, a critical bulk of universities will charge the maximum, approximating a system of flat fees. The result will be (a) to reintroduce closed-ended funding and (b) to restore central planning by the back door. As in the former-communist countries, change must be irreversible.

ENSURING A SUSTAINED INCREASE IN UNIVERSITY INCOME

103. In the medium term, the mechanism for achieving more resources is through variable fees. However, taxpayer clawback over the next 10 years (as in Australia) puts quality at risk. From 2006, students will face higher fees than their predecessors. If the quality of their student experience fails to match those higher fees, the new arrangements could come under political threat. Generous tax funding during the initial phase is therefore essential.

4.3 Matters for future consideration

REDUCING THE INTEREST SUBSIDY

104. As with fees cap, it is important to introduce reforms that are politically sustainable. Even so, it is worth having another look at the interest subsidy, since its cost considerably dilutes the redistributive power of the proposals, putting at risk the first leg of the White Paper strategy.

105. WHAT IS WRONG WITH THE INTEREST SUBSIDY? As discussed in section 2.2, the blanket interest subsidy achieves not a single desirable objective: it is enormously expensive; it encourages arbitrage; it impedes quality, since expensive student support tends to crowd out the funding of institutions; it impedes access, since it is the cost of the interest subsidy which is the direct cause of loans being too small; and it is deeply regressive, the main beneficiaries being successful professionals in mid career.

106. The White Paper proposals make the costs of the interest subsidy – currently £800 million per year – even more salient. The proposals will increase that figure considerably for two reasons.

- Loans will be larger, to cover tuition fees. This change increases the cost of the interest subsidy *proportionately* to the increase in loan outgoings.
- The repayment threshold will be increased from £10,000 to £15,000. This change increases the cost of the interest subsidy *disproportionately*.[19]

Thus the cost of the interest subsidy could easily increase to £1.2 billion *per year*.[20] As noted earlier, that expenditure is targeted with exquisite accuracy on exactly the wrong people at exactly the wrong time.

[19] The argument is straightforward: the higher threshold benefits two groups of graduates: low earners, with total earnings under £15,000 *and* high earners. Thus the higher threshold covers a very dense part of the earnings distribution, hence is very costly.

107. THE DEPARTMENT'S ARGUMENTS – FAIL, DO NOT ALLOW TO RESIT. In evidence to the Select Committee (2002, pp. Ev. 48-56), the NUS argued that because loans have income-contingent repayments, lower earners repay more slowly, and thus pay more interest than higher earners; reducing the interest subsidy, the NUS argues, harms lower earners. The Department's response to the Select Committee's Sixth Report, takes the same line:

> '... if a real rate of interest is charged, the effect is highly regressive. The effect is that graduates on lower incomes, since they pay for a longer period, will pay more in interest. And those that earn the least will pay the most. So it is clear that the effect of an interest subsidy ... targets the subsidy rather well, in direct proportion to income. Those who benefit most from the subsidy are those who earn the least' (Select Committee on Education and Skills, 2003, para. 30).

> '... It would of course be possible to devise a complex system whereby the interest rate charged is reduced for those on lower earnings and on career breaks. However, such a system would be significantly more complex and expensive to administer and still would only have the effect of channelling the subsidy back to those people – ie on lower earnings – who are the principal beneficiaries of the subsidy at the moment' (*ibid*., para. 31).

108. Given the huge cost of interest subsidies, the Department's argument about their incidence is worth dissecting.

109. *Answer 1*. Taken at face value it is true that lower earners repay more slowly and thus end up paying more interest. The question then is how to protect low earners. The basis of the Department's argument is that to protect the poor, the commodity should be subsidised for everyone. This is the Old Labour argument for postwar food subsidies, which did, indeed, help the poor by giving them cheaper bread, but helped the rich much more by giving them cheaper smoked salmon. Blanket interest subsidies, analogously, help low earners but, as explained in para. 19, the major beneficiaries are graduates whose repayments stop after (say) 10 years with an interest subsidy rather than after 12 with a real interest rate, and those who take out loans only to benefit from the arbitrage opportunity.

110. The Department argues that 'those who benefit most ... are those who earn the least' (para. 30). Separately, it argues that targeted interventions '... only have the effect of channelling the subsidy back to those people – ie on lower earnings – who are the principal beneficiaries of the subsidy at the moment' (para. 31). Both arguments are – quite simply – wrong: they ignore the much larger total benefit for the great bulk of graduates who repay their loans in full. The same resources would do much more to help the poor if spent in ways, discussed below, that do not leak out to the latter group.

111. *Answer 2*. The whole point of income-contingent repayments is that they tailor monthly repayments to ability-to-pay by automatically extending loan duration for lower earners. Someone who buys a house for £100,000 will pay more interest if she opts for a 25 year mortgage with lower monthly repayments than a 15 year mortgage with higher monthly repayments. Income-contingent repayments do this automatically. It is, of course, entirely possible to solve the 'problem' by moving back to mortgage repayments (e.g. equal annual repayments for (say) ten years, regardless of income); thus loan duration, and hence interest payments, are the same for all students with a given size of loan. The cure, however, is far worse than the disease.

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[20] A precise figure would require a fairly sophisticated modelling exercise which takes account of the distribution of graduate earnings.

112. *Answer 3*. A range of mechanisms do much more to protect the poor than blanket interest subsidies:

113. USING THE RESOURCES BETTER. £1.2 billion per year could finance the following pro-poor policies.

114. *More assistance for poor students at university.*

(a) A larger grant; also making grants an automatic extension of Educational Maintenance Allowances.

(b) Raising the income threshold below which people qualify for a grant.

(c) Offering a 'super grant', covering all costs, to some students in their first year.

115. *Better support for the generality of students*.

(d) Increasing the full maintenance loan so that it covers realistic living costs.

(e) Abolishing the income test; all students are eligible for full loan, thus abolishing compulsory parental contributions.

116.

Each year the Student Loans Company recalculates each borrower's outstanding loan balance by adding on interest charges and deducting repayments. The way to give a targeted subsidy is through an adjustment whereby the outstanding balance of someone with low earnings is not increased by more than the inflation factor.[21] Such an arrangement will, of course, involve additional administrative costs, but almost entirely the one-off cost of developing some additional code for the Student Loan Company's computer system; the marginal administrative cost per low-earning graduate is negligible.

119. In short, neither the claim of complexity nor of high administrative cost stands up. The correct argument is the other way round: eliminating the blanket interest subsidy, by making it possible to eliminate the income test for loans, would significantly *reduce* administrative costs.

120. THE POLITICS OF CHANGE. The idea of raising the interest rate to the government's cost of borrowing is less radical than it sounds.

- The Netherlands and Sweden charge a positive real rate, a matter that is never discussed in those countries because it is taken for granted.
- A higher interest rate does not add a penny to any student's monthly repayments.
- A higher interest rate has no effect on the headline debt figure.
- Now would be a good time for such a move, since change involves only small increase in the nominal interest rate.
- A commitment by government to spend all the extra resources from charging a higher interest rate on the targeted interventions above would make it harder for the National Union of Students to argue against the move without laying themselves open to the charge of fighting to protect middle-class perks using access as a fig leaf, in reality behaving more like the National Union of Graduates.

5 Addressing public concerns

121. Students, their parents and politicians have a series of understandable and legitimate worries, which is precisely why the public information campaign advocated in section 4.1 is so vital. This section outlines those worries and tries to show that, for the most part, they should not be exaggerated.

- The new system will leave students with large debts.
- Higher participation lowers the return to getting a degree.
- Student debt will make it harder to get a mortgage.
- Variable fees are inequitable.
- Variable fees will harm access.
- Variable fees will create a two-tier system.

[21] The analysis draws on a project advising the Hungarian government. To illustrate a simple system, let OLB(0) = outstanding loan balance at the start of year 0, R = the annual interest rate on student loans, DELP = price inflation over the year, and ICR = the graduate's income-contingent repayment that year. The change in a person's outstanding loan balance is

$$OLB(1) = (1+R)*OLB(0) - ICR$$

In principle, a targeted interest subsidy requires only one extra line of code:

$$\text{If } ICR < R*OLB(0),\ OLB(1) = OLB(0)*(1+DELP)$$

- It is morally wrong to charge for higher education.
- This is the start of a slippery slope.

5.1 Worries about debt

122. THE NEW SYSTEM WILL LEAVE STUDENTS WITH LARGE DEBTS. As discussed above:

- Income-contingent loans change everything because monthly repayments are exactly matched to the graduate's income. Thus student debt should be regarded as a payroll deduction, not a final demand notice.

- The debt is not large – it only seems large because of the misplaced emphasis on the headline debt figure. Under plausible assumptions a graduate will pay £850,000 in cash terms in income tax and national insurance contributions over a 40-year career.

- Variable fees also contribute to diversity and choice. This is efficient. And it also contributes to access: for example, universities will respond to demand by putting on part-time and evening courses, making it easier and cheaper to get a degree.
- It is efficient and equitable for the taxpayer to finance the social benefits and the beneficiary to finance his private benefits. Since the latter are higher at some universities than others, students at those universities should pay more.[23]
- Excessive reliance on tax funding is unfair. Tax funding has done nothing to improve

become the same. This would lead to exactly the result the White Paper sets out to avert – handing over the UK research base to the USA.

128. More positively, diversity and choice are good things in their own right. Fifty years ago, transatlantic flights were the province of a rich elite, with all seats first class. Today mass aviation has made world travel an everyday reality. It is true that the cheaper seats are less roomy and the food less good, but economy passengers travel in the same plane and arrive at the same time as first class passengers, i.e. do not fly in dangerous rust buckets and only on slow planes. The effect has been enormously to widen opportunities for large numbers of people. The analogy with higher education is apt.

5.3 Worries about the public service ethos

129. IT IS MORALLY WRONG TO CHARGE FOR A BASIC RIGHT LIKE HIGHER EDUCATION. I agree with the value judgement that access to higher education is a basic right, but that does not mean that it has to be free. Access to nutrition is a basic right, yet nobody argues that it is wrong to charge for food. The moral imperative is not about

133. OUTCOME 1: FAILURE TO TAKE OFF: A POLITICAL DOWNWARD SPIRAL. The story in this case is of:

- Failure to convince students and their parents that this is not a case of heavy debt; political ructions continue. Hence
- Inability to reduce the interest subsidy, hence insufficient resources to promote access and continuing rationing of loans by the Treasury, further aggravating the politics of higher education finance, and hence
- Inability to raise the fees cap, restoring communism and its companion, underfunding.

As a result, in five years time we are back in crisis, as in the incomplete reforms in 1997. But this time round would be a final farewell to world class universities.

134. OUTCOME 2: TAKE OFF

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