

Is lowering the fees cap the right policy?¹

Nicholas Barr²

1. R

A policy _____, if combined with the highly desirable policy of relaxing or removing the cap on student numbers, creates an open-ended funding commitment.

15. Method 3: Retaining the current fees cap and, when fiscal conditions allow, providing additional, tax-financed support for teaching.

That support could be a fixed sum per student, in which case the direct distributional effect would be broadly neutral.

Alternatively, Barr and Shephard (2010) discuss the idea of and rationale for an arrangement with two characteristics. First, there would be more taxpayer support per student for universities that charge lower tuition fees. The result would be progressive and, for reasons that Barr and Shephard explain, can be justified also on efficiency grounds.³ Second, to allow the Treasury to control public spending, such teaching support could take the form of a block grant covering ~~100% of~~ ~~ETBT~~ ~~m~~ ~~(J~~ ~~JETBT~~ ~~100~~ ~~J~~ ~~JET~~ ~~to control~~

18. The 2012 reforms do not comply with these considerations. The taxpayer cost of loans is too high for two reasons. The loan design

while ignoring the second.⁷ Specifically, the place of taxpayer support for teaching in the policy queue should depend on surrounding conditions.

2 Policies to improve the system

21. What is needed are the right policies in the right order. If it is not possible for example because of fiscal constraints to address all problems simultaneously, the balance of the argument suggests that the loans distortion should be addressed first.

22. The right batting order is along the following lines:

- 1) Reduce the fiscal cost of loans by reducing the real value of the repayment threshold. Some or all of the remaining loss on student loans could be met from sources other than taxpayers (Barr and Shephard 2010).
- 2) Extend student loans in desirable ways including increasing the maintenance loan, expanding loans for part-time and postgraduate students and introducing loans for other parts of tertiary education and perhaps also for apprenticeships.
- 3) Increase spending earlier in the system to widen participation, for example Education

The threshold level of income at which loan repayments start should be reduced in real terms;

Spending on improving access should be rebalanced, with more emphasis on spending earlier in the system;

The balance between taxpayer support for teaching and tuition fees should over time be adjusted by restoring an element of teaching grant.

References

- Nicholas Barr (2012) *Social Policy and Administration*, Vol. 46, No. 5, October 2012, pp. 483 and 508.
- Nicholas Barr and Neil Shephard (2010), Towards setting student numbers free, December 2010 http://econ.lse.ac.uk/staff/nb/Barr_Setting_numbers_free_101217.pdf
- Chowdry, Haroon, Crawford, Claire, Dearden, Lorraine, Goodman, Alissa and Vignoles, Anna
Journal of the Royal Statistical Society, Series A, 176, Part 2, pp. 431–457.
- Labour Manifesto (2015), *Britain can be better*, <http://www.labour.org.uk/manifesto>
- Green Party Manifesto (2015), *For the common good*, <https://www.greenparty.org.uk/we-stand-for/2015-manifesto.html>
- Times Higher Education*, 2 December, <http://www.timeshighereducation.co.uk/story.asp?sectioncode=26&storycode=414470>
- SNP Manifesto (2015), *Stronger for Scotland*, <http://votesnp.com/docs/manifesto.pdf>