

How should we pay for
universities?

Principles and practice
from England

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LSE

Need for action

- Long term public budget constraints require new forms of funding.
- Regardless of the fiscal crisis universities should move away from primary reliance on state funding on ethical grounds.
- Over the past 20 years English universities have done so and decisively next year.
- What were the arguments, the practical means and outcomes?

The state's role

- To ensure that institutions crucial to an 'open society' prosper.
- To enable citizens to develop their capacities to the full. Most help to disadvantaged.
- To enable fundamental research.
- To encourage high quality teaching not just teachers' research agenda.
- These roles are in tension. Therefore diverse funding.

State funding

- While some of these roles require state funding, (basic research = a public good), it should not be the dominant source.
- The state should act as a lender to students, to remedy capital market failure,
- as an national insurer against an individual student's incapacity to repay through low lifetime earnings (risk pooling/solidarity),
- give incentives to students from poorer or less educated homes to remedy any information failure,
- give incentives for good teaching.

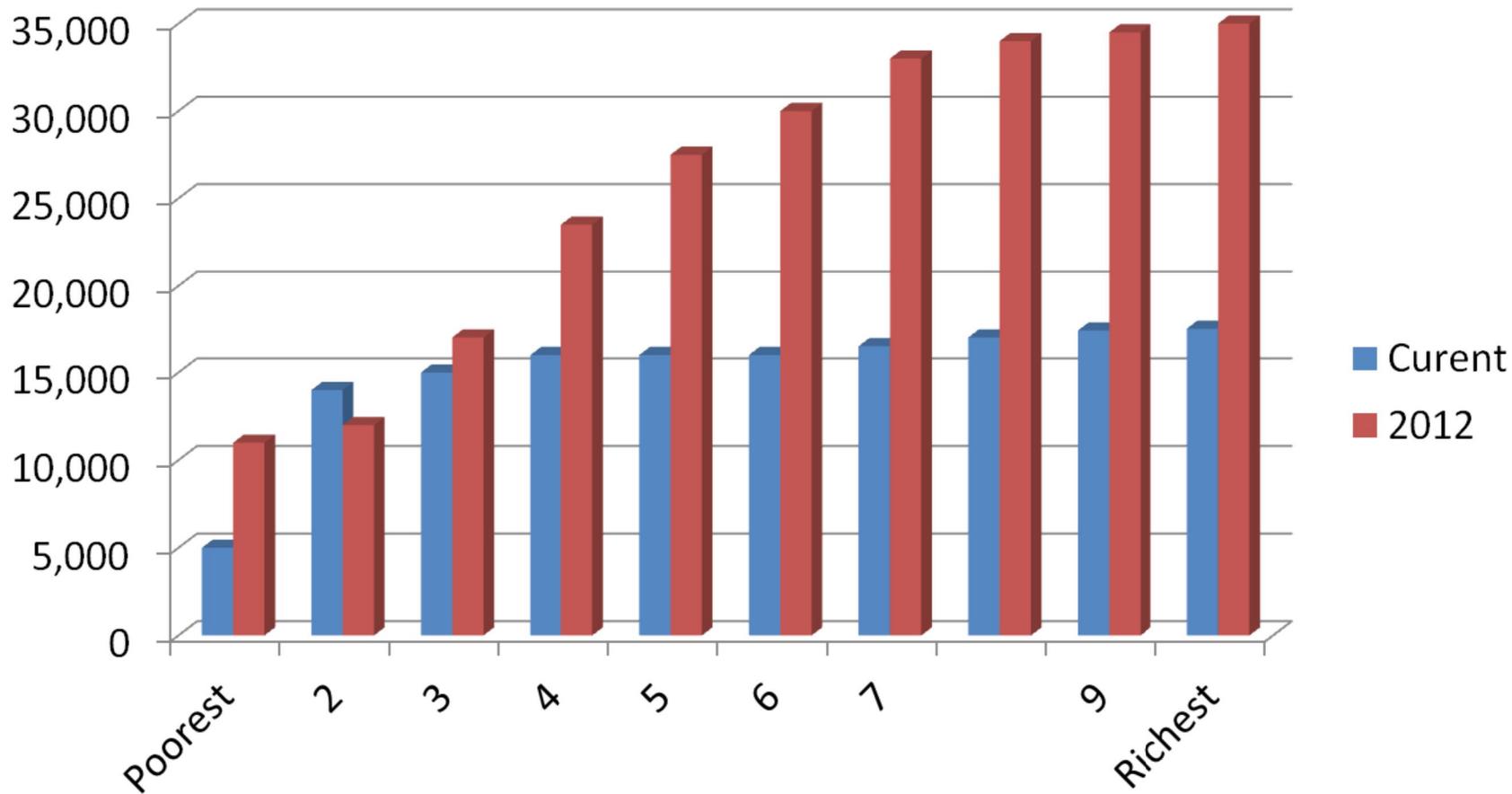
Fair? Yes, if you design the package correctly. The English example.

- Remove all up front costs of tuition and moderate living expenses that fall on students.
- Collect fees and repayment of such help during working life. Charge a real interest rate but vary rate with graduate income.
- Only collect if income passes a threshold (€ 25,000) and on 9% of the additional income.
- A national scholarship scheme and requirements on universities to improve access for students from poorer families – bursaries+ outreach.
- After 30 years all remaining debt wiped out.

Equity effects

- 1992-2007 fees reduced take up compared to what might have been expected. But better help with living costs increased it.
- After 2006 fee increase no long term reduction in growth of entrants. Faster growth in England than Scotland. (Table 1) Fee income led to more places.
- 2006 raised the price of university education for the children of higher income groups and reduced it for the poor. The result narrowed differences in social class access. (Tables 2+ 3)
- Virtually the whole differential access to higher education in UK arises from differences in school outcomes not student finance. (nb Ireland)
- The rise in university fees has enabled the schools budget to be largely sustained.

Net present value of lifetime repayments by graduate incomes



Efficiency effects

- University budgets overall are likely to rise despite this crisis and their economic contribution be sustained.
- Channelling funds through students will make them more powerful consumers.
- Making students face the differences in the resource costs of teaching their subject will improve 'allocative efficiency'.

Options rejected

- Graduate tax
 - Revenue counts as a tax and university budgets are on the public accounts. Thus no help in the crisis.
 - Treasury receives the funds not universities.
- Mortgage loans
 - No shared risk pool. Risks of default.
 - Bad for those with lower income stream.
 - Greater deterrent to those not used to borrowing.

Good Questions

- Why are schools free and universities not?
- How far will the rising costs put off applicants?
- Will graduate salaries rise to partly accommodate the fee rise? This would raise the cost to employers and the state. Might this be a good thing?
- Will it put off people taking higher cost subjects like science?
- More students will go abroad?
- Can we recover fees effectively from European students?

Errors

- No support for teaching humanities and social science goes too far. Some public good element must exist for all subjects.
- Jump in fees probably too big. Labour has said there should be a £6,000 maximum.
- Income at which repayments begin too high. Thus lower repayments and higher than necessary Exchequer cost.
- Complex system of maintenance grants and loans that overlap.
- Places still rationed. This being relaxed in a complex way.
- High fees bring some risk for government, more may not repay. A levy on high fee institutions to mitigate this not taken up.

Conclusion

- The English principles, I believe, are morally right, even if the detail of implementation could be improved.
- But Scotland, Wales and Northern Ireland do not agree.
- A laboratory to watch.