Student finance: time to halt this shabby set of proposals and take a proper look at higher education funding.

Towards a case for funding undergraduate education from general taxation.

So the worst-case scenarios have come to pass. Many have feared this since 1999, when tuition fees were reintroduced for British university students for the first time since the early 1960s, and 2003, when an attempt to introduce a market mechanism and a broken manifesto commitment utterly divided a left-leaning party.

With tuition fees of up to £9,000 per year for undergraduates on the table and a maintenance loan contributing to living costs to repay, future students face the bleak prospect of graduating with approaching £40,000 of government debt after a standard three year degree.

The proponents of tuition fees argue

- that funding must be found for higher education,
- that since the students are the prime beneficiaries they should bear some – or now it seems all – of the costs,
- that these proposals are "progressive",
- that a market-style competitive regime with funding following the student in a latter-day voucher system will drive up university quality.
- Some suggest that the budget deficit makes these changes a necessity.
- And a few echo Margaret Hodge's formulation from 2002 - that "the dustman should not pay for the education of the doctor".

First, funding for higher education is needed. Well duh. Education is the means by which we humans transmit and develop the wisdom and knowledge accumulated over the generations. Its central role in building better societies has been widely acknowledged at least since the time of Aristotle – as has the state's vital role and interest in ensuring that its citizens can learn.

That's not to exclude, though, that university administrators, like BBC senior executives, may have grown fat on public money under Gordon Brown's all too lax watch, or that there might be considerable scope for improving the way universities are run.

At almost 2% *[1] of public spending, tertiary education spending is significant. The current proposals, though, offer no savings for the foreseeable future: what the government gains in reducing direct funding to universities will be matched and possibly exceeded by what it lays out in providing student finance.

Second, students are beneficiaries. Well of course. Few would attempt to sustain a view, though, that it's just the individual student who benefits. We all have has a vital interest in seeing our fellow citizens educated, capable, thoughtful and with a finely developed moral sense . Yet on the present proposals, students are likely to pay all or nearly all of the full cost *[2] of their undergraduate degrees in most subjects at most universities.

And this jumps past a crucial moral choice, and one that greatly exercised both parliament and the wider public debate as recently as 2003: why should students pay at all?

The introduction of free, universal education was regarded as a triumph of nineteenth century social reform and educational progress. And that triumph has extended to "free" A level studies, and, from the post-war era until Mr Blair, “free” university places for those who have the qualifications, ability and desire to take these up.

So why, now, is there an expectation from the pro-fees lobby that students should pay? After all, virtually all of our young adults starting university have no income at all, or have just what they can glean from part-time, often minimum wage work fitted around their studies. These are some of the poorest people in our society, yet we ask them to meet the costs of this central social good?

Even the current fees regime looks desperately expensive to many. Students today on a three year degree course can expect a debt of around £20,000 for tuition fees and a maintenance loan of perhaps half of what's needed to live on.

Contrary to the impression the government likes to give, significant interest charges start accumulating immediately on receipt of the loan. Interest is charged at a rate linked to retail price index (RPI) which is currently at 4.5%, and has been higher in recent years.

On a £20,000 loan, that 4.5% *[3] means an extra £900 this year. Just to stop the debt rising and pay off the interest, the graduate will need to earn around £25,000: within range for only a proportion of each year's graduates.

On a £40,000 debt, with a similar RPI and a starting threshold of £21,000, a graduate would have to earn around £41,000 just to cover the interest payments. On IFS figures, that income would put the earner comfortably in the highest 10% *[4] of earners as recently as 2008. So not many of our future graduates, on these proposals, will be able to look forward even to stopping their debt rising anytime soon, if inflation continues as it is.

So is this progressive? Many are realising that this is a lifetime loan that only those on higher incomes will ever be able to pay off. *[5] And in the meantime, each graduate pays an extra 9% in what is effectively income tax – but a capped, regressive income tax that the highest earners can escape in just a few years.

A reason often advanced as to why students should pay is that they will benefit through enhanced earnings, and so “should” all pay because some will receive this extra income – an “investment” in their future. Strangely, though, the report jumps past the normal and required caveats for investment advice: it fails to mention that the value of investments can go down as well as up, and that past performance is no guide to future returns *[6] .

But the Browne team seems happy to include the dubious assertion that “The return to graduates for studying will be on average around 400%”. *[7]

This of course is nonsense. The 400% estimate, unsourced and unexplained, appears to be based on crude averages of data on incomes in the past, when graduates made up a much smaller proportion of the year group and the percentage of graduates in the workforce was much lower than it will be when these students are earning and repaying.

Many students will gain in higher incomes, and some may do very badly income-wise. Lumping them all together onto one payment scheme is illogical – there's no chance at all that it will produce an outcome anyone might consider fair. It is a simple assertion of moral preference. As such of course it's quite valid – but no more valid than the opposite preference. It does not of itself silence debate nor provide any persuasive force.

The logical time to charge for this benefit from education is when the benefit actually accrues: taxation on the higher income when that higher income materialises. The government recognises this to an extent, and in the new proposals suggests raising the income threshold before repayments from £15000 to £21000.

And by the government's own reckoning, more than half of graduates will never pay back the full loan. For the majority, this will be a deeply regressive implementation of a graduate tax. The highest earners may clear their debts within a decade or less, and then continue to reap the high-income benefits long after at no extra charge. The majority will pay an additional 9% of their income in tax for 30 years. This is so far from what the government claims, let alone so far from what much of the Labour party believed in in 2003 and what the Lib Dems pledged themselves to this year, it's no wonder there is widespread anger and student revolt. It could get worse.

So let's move on to driving up quality through competition. Lord Browne and his team supply no evidence and no arguments in support of this: it is simply asserted. They would like to consider university entrance as a market.

Surely this entirely misses a crucial point : virtually all of our higher status universities already receive many more applications than they can accept. Universities choose from the many who apply to them. Entrance to our older universities was once was once based largely on willingness and ability to pay – but we left all that behind in the post-war settlement after 1945, when the realisation that the old system, based largely on class and income, did not serve the country well.

Browne's argument, seemingly accepted by the government, is that if "money follows the student" then pressure to attract students will drive up university quality.

Again, this is nonsensical. Will universities spend money on trying to drive up teaching quality – or will they spend it on marketing and promotion, trying to create the allure and promise that might pull in more paying customers? And will students really be given choice – 100,000 or more a year each to go to London, Cambridge, Oxford, wherever people imagine they may gain the paper and the grades to boost their earnings, and most other universities to close?

Of course not. Even Browne displays misgivings here, calling for a new quality regulation regime to ensure the standards rise this change is imagined to drive.

And, if it could be shown that this money-follows-the-student approach would drive up teaching quality, this in no way requires a student-fees approach. It would be perfectly possible to allow universities the flexibility to increase numbers by manageable proportions in response to "demand", and use the existing block grant mechanism to pay a per-student fee to each university.

Deficit reduction. The reality of these government proposals, on their own figures, is that they will contribute little or nothing to deficit reduction for as long as a decade or more.*[8] See the calculations of the Higher Education Policy Institute and Million+ on this – references below.

This makes a mockery of the suggestion that we have to do this because of the cuts. The people driving these proposed changes do so for ideological reasons, and risk causing severe social and individual damage in pursuit of a half-baked market ideology.

Then, the bar-room knockabout of the dustman and the doctor argument: surely we've moved into a pastiche of politics here. No, the dustman should not pay for the doctor - though lower earning students will pay a far higher proportion of their life-time income than the high earners, under the government's proposals.

At undergrad time, future doctor, future teacher, future nurse and quite likely, with 50% going to University, future waitress, future minimum wage earner and future low-wage council employees are all earning next to nothing. If and when the one has high earnings, that is the time for that one to make the higher contribution. And the way to address this discrepancy is through the tax system. Lower earners should pay a lower proportion of their income towards the national good that is bought through general taxation. The government recognises this in its drive and intention to raise the income tax threshold to £10,000, and to introduce a higher tax band for the highest earners.

University finance is all about political choices: there are no technical fixes or neutral economic mechanisms that can make moral choices on our behalf. We do not have to accept the market ideologues' insistence that undergraduates should be made to pay fees for their education.

Not every aspect of human relations is better advanced or managed through market and money mechanisms : many if not all would draw the line in building relationships or finding partners in this way, and even those market purists willing to go that extra yard in pursuit of a poorly-understood political philosophy from the nineteenth century might baulk at letting this aspect of their behaviour leak into the public domain, as Lord Browne himself once did.

Much is wrong with how we currently finance our universities and students. In search of the reasoning and evidence behind these proposals, I downloaded and studied the Browne report – with growing amazement. Here was the lower end of business-style argument by Powerpoint - and this was the basis on which the government would dismantle 150 years of higher education progress? Unbelievable: or perhaps not.

A memory of conversation with a junior treasury official back in the summer of 2007 drifted unwelcome into my thoughts. Gordon was riding high, Blair and the top job in his sights at last. Surely, I ventured, Gordon's constant focus on the short term political fix and indifference to longer-term economic consequences would lead him towards disaster should he get the top job? Don't worry, the official assured me. For every contentious issue, Gordon had a master strategy. Kick it into the long grass. Appoint an expert to produce an "independent review". Make sure the expert is on side and will produce what's wanted. Much later, when the report comes in, paint your political choices as hard economic and technical necessities, reluctantly faced. It works every time, I was assured. Let's hope that, this time, Lib Dem principles and belated Labour spine can combine to defeat these deeply flawed and dangerous proposals.

We desperately do need to work out better what we want from our universities, and how to fund them. How best to manage teaching and learning in the tertiary sector – something that up until now many of our older universities have left entirely to tradition.

The Browne review makes no progress at all on the big issues. We should scrap it, and undertake proper academic and political review and debate on where we want to go.

Please God, or Richard Dawkins, kill these proposals now.

Outline of the government's proposals (official site) http://www.bis.gov.uk/studentfinance

NOTE THAT "NO REAL INTEREST" MEANS INTEREST CHARGED AT THE RATE OF THE RPI - CURRENTLY 4.5%

*1 Public spending breakdown: http://www.ukpublicspending.co.uk/classic#ukgs30230

2* What are actual teaching costs? http://www.hefce.ac.uk/learning/funding/price/ and http://www.hefce.ac.uk/learning/funding/price/review0607_0809.pdf

*3 RPI http://www.statistics.gov.uk/downloads/theme_economy/Rp04.pdf

*4 Income distribution data from the Institute for Fiscal Studies http://www.ifs.org.uk/bns/bn76.pdf

* 5 Totally Money at http://www.totallymoney.com/news/index.php/2010/11/graduates-loans-university/

*6 FSA on assumptions about future investment performance http://www.fsa.gov.uk/Pages/Library/Communication/PR/2000/107.shtml

*7 The Browne report is at http://hereview.independent.gov.uk/hereview/report/

*8 (and the item below) From million+, an explanation of why there is little net savings, yet the

government is claiming savings by taking the costs of student loans and other costs “off balance sheet”, or out of the public sector borrowing requirement (though still of course part of the national debt, and real money that the government has to find)
http://www.millionplus.ac.uk/newsandviews/briefing-spending-review the review link at the bottom of the page, though loading a word document, is worth checking out

*8 (reference two)

And on this point, more from the Higher Education Policy Institute:
http://www.hepi.ac.uk/files/50%20Government%20HE%20funding%20proposals%20summary.pdf

http://en.wikipedia.org/wiki/Income_in_the_United_Kingdom#Percentile_points_for_income_of_individuals_before_tax