Weathering the storm: positioning higher education, learning from the past

Nicholas Barr
London School of Economics
http://econ.lse.ac.uk/staff/nb

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1 The backdrop
2 The current strategy
3 Learning from the past
4 What about the future?

1 The backdrop

The world has changed

- **Proposition 1: the world has changed**: 50 years ago higher education was not important in economic terms. Today it matters:
  - To promote core values (as always)
  - To pursue knowledge for its own sake (as always)
  - To promote economic growth in competitive economy
    - Technological advance a major driver
    - Higher education is vital both for national economic performance and for individual life chances
- Specific objectives: widening participation, quality, efficiency

What's ideological and what isn't?

- Balance between market and state: mainly technical, rooted in the economics of information
- Ideological: widening participation
- **Proposition 2: students matter**

2 The current strategy

Leg 1: paying for universities: deferred variable fees

Variable fees

- Promote quality
  - by bringing in more resources, and
  - by strengthening competition, creating incentives to use those resources efficiently
- Counter intuitively, variable fees are also fairer
  - Why should a student at Balls Pond Road Tech pay the same fee as at a world-class university?
  - Given the gradient in participation, arguing for higher fee subsidies is like arguing for higher champagne subsidies

Mistake to avoid: ‘big bang’ liberalisation (more later)

Does competition work?

- Yes when consumers are well informed
- Are consumers well informed?
  - Students are mostly a savvy, streetwise bunch
  - Much information is available and more can and should be made available
  - Good information is a central source of quality assurance:
    - On the student experience
    - On teaching
    - On employment outcomes

Leg 2: student support: free at the point of use

- Loans should
  - Have income-contingent repayments
  - Adequate, i.e. large enough to cover all fees and all living cost
  - Universal: all students should be entitled to the full loan
- Thus
  - Higher education is free at the point of use
  - Students are no longer poor
  - Students are not forced to rely on parental contributions, extensive paid work or expensive credit card debt
- Mistake to avoid: blanket interest subsidies (more later)

Leg 3: active measures to promote access

- Widening participation
  - Raising attainment
  - Improving information/raising aspirations
  - Money measures

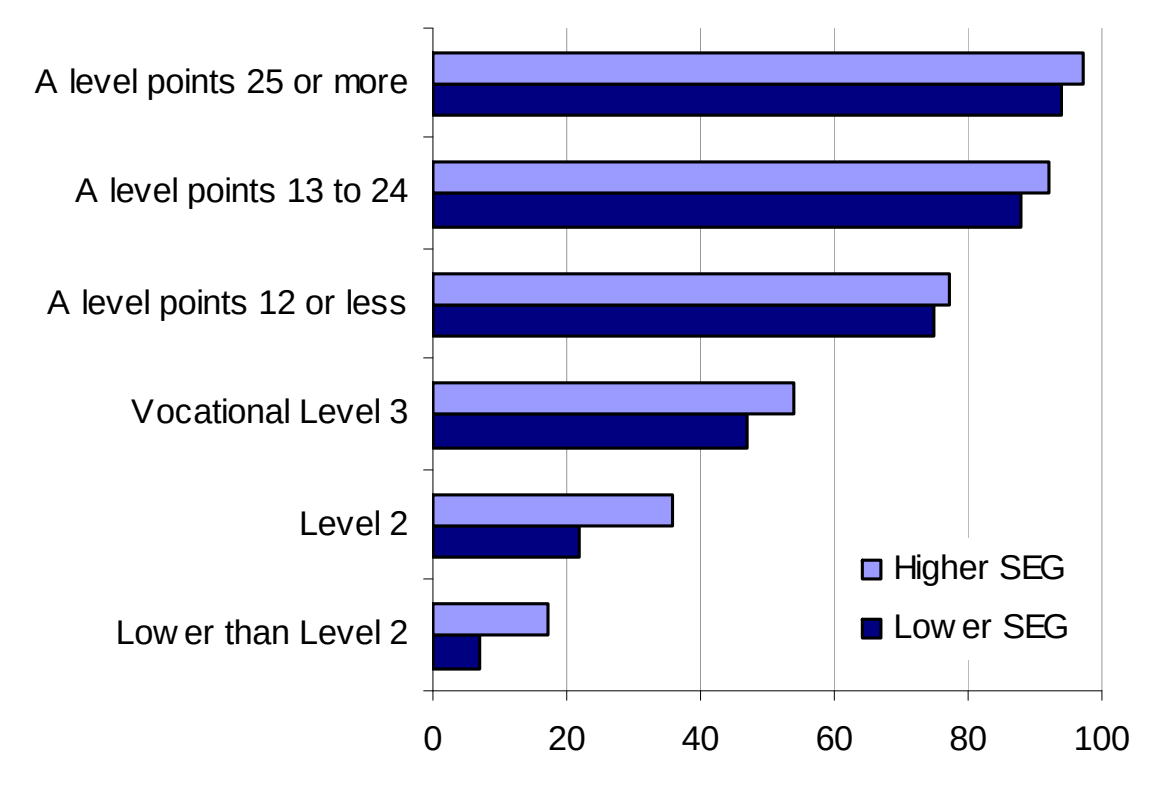
Mistake to avoid: underestimating the influence of attainment

What are the real determinants of participation?

- According to ‘pub economics’ it is obvious that ‘free’ higher education widens participation
- Pub economics is wrong

Who goes to university? It's attainment, stupid

Source: Office for National Statistics (2004, Figure 2.15)



3 Learning from the past

Long-run trend of rising demand for higher education

- Technological change is driving up the demand for skills, requiring more training
- Separately, skills have a shorter half life, requiring repeated training
- No accident that participation rates have risen in all countries
- No sign that these trends are abating

Short-run counter-cyclical element in the demand for higher education

- Some parts of the economy have a counter-cyclical aspect
  - Movement from Harrods to Asda
  - Movement from the Ritz to Dominos Pizza
  - Movement from Saville Row to Littlewoods
- Thus the overall effect of the recession is mixed

The demand for places

- Relatively more attractive to build skills when job prospects are limited, hence the opportunity cost of study is lower
- Thus the demand for places is becoming more competitive

  ‘Recession brings a scramble for university places: A late surge in university applications is putting extra pressure on sixth formers to achieve top grades in their exams. Figures out today show almost an 8 per cent increase - about 42,000 - in applications for full-time study at university, the biggest in eight years, with many of the applications received in December and January’ (Times, 16 Feb 2009, p. 15)
- The restriction of student numbers is profoundly erroneous

Finance

- State support for fees and living costs: no sign of decline in the basic arrangements, though unlikely to increase in short run
- Parental support: declining parental job prospects in short run; an unambiguous problem
- Student jobs
  - Decline in total number of jobs during recession
  - However, employers may trade down, with rising number of jobs for students, directly or via agency jobs

Message for students

- ‘Time is on my side’
- Work force is ageing rapidly
  - Number of baby boomers retiring will rise
  - By 2011, mean age of UK population will exceed 40 for the first time; by about 2017/18, there will be more people over 40 than below 40 (ONS 2005/2006)
- Upheaval creates many new opportunities

4 What about the future?

- 3 central policies, in the following order
  - Major publicity campaign to explain how student loans work
  - Action on the interest subsidy
  - Action on the fees cap
- Alongside these, continuing action to widen participation

4.1 Explaining student loans

Information about existing student support

- Fight disinformation and scaremongering (‘high fees, high debt’, conflation of student loans with credit card debt)
- Message 1: higher education is free to the student (it’s graduates who make repayments)
- Message 2: loans have income-contingent repayments
  - Thus a payroll deduction, not credit card debt
  - 25-year write off (strongly benefits women)
  - Thus equivalent to a graduate tax that stops after a maximum of 25 years, and for most people significantly earlier
- Message 3: keep the scale in context
  - £20,000 credit card debt is scary
  - £20,000 as payroll deduction; cf £1 million in income tax and national insurance over a typical full graduate career
  - Student loans and pensions are both life-cycle redistribution

Loan repayments in the UK (2006 scheme)

	Bill	Tariq	Tim	Jane
Annual earnings	£15,000	£20,000	£30,000	£50,000
Income tax (monthly)	£161.19	£252.86	£436.19	£945.58
NI contributions (monthly)	£91.26	£137.10	£228.76	£274.93
Loan repayments (monthly)	£0.00	£37.50	£112.50	£262.50

- Low earners make low or no repayments
- Repayments automatically and instantly track changes in earnings, exactly like income tax and national insurance contributions
- Loan repayments are generally much smaller than income tax or national insurance contributions

4.2 Action on the interest subsidy

Two wrong interest rates

- Zero real rate
  - I.e. interest rate equal to the inflation rate, lower than the rate at which the government borrows
  - This is the rate on UK student loans
- ‘Commercial’ rate
  - I.e. the rate on individual unsecured loans
  - This is the rate charged on credit cards, bank overdrafts, etc.

What is wrong with a blanket interest subsidy?

A zero real interest rate

- Is enormously expensive: about one-third of all money lent to students is never repaid just because of the interest subsidy
- Impedes quality. Student support, being politically salient, crowds out the funding of universities
- Impedes access. Loans are expensive, therefore rationed and therefore too small
- Is deeply regressive, the main beneficiaries being successful professionals in mid career

Why interest subsidies are regressive

- An interest subsidy in a conventional loan helps people with low earnings
- But in the UK student loan scheme
  - Loans have income-contingent repayments
  - There is forgiveness after 25 years
- These 2 features turn the conventional argument upside down

Who benefits from interest subsidies?

- Students?
- Low-earning graduates?
- High earning graduates with low early-career earnings?
- High earning graduates?

What should be done?

- The blanket interest subsidy should be replaced by targeted interest subsidies
- The default interest rate should be related to the government's cost of borrowing
- Targeted interest subsidies should prevent real debt rising for
  - People with low earnings
  - People with caring responsibilities
- Targeted subsidies are administratively feasible (Hungary)

Resulting policy gains

Fixing the interest subsidy problem releases substantial resources

- To increase loans to cover any increase in the fees cap
- To extend loans
  - To part-time students
  - To postgraduates
  - To students in tertiary education and training more broadly

4.3 Action on the fees cap

Why a fees cap?

- The fees cap should be
  - High enough
    - To bring in significant extra resources
    - To create genuine competition
  - Low enough
    - To maintain political sustainability by giving students, prospective students and their parents time to adjust
    - To give institutions time to put in place management suitable for a more competitive environment
- Should some sort of fees cap be permanent? Yes
    - To protect against exploitation of monopoly elements

At what level?

- A balancing act
  - Message to the access warriors: don't perpetuate a middle-class subsidy
  - Message to the market warriors: don't overshoot (USA)
- Martin Harris, Chairman of OFFA has argued
  - That there is no evidence that financial factors have harmed access
  - That the fees cap should be increased to £5000
- Essential that any increase in the fees cap is fully covered by an increased loan entitlement

4.4 Continuing action to widen participation

- Policies to address the attainment constraint
  - Early child development
  - Improved school outcomes
  - Raising aspirations
- Policies to address credit constraints
  - Income-contingent loans that make higher education free at the point of use
  - Make part-time study easier

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