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Originally published in Political quarterly, 69 (1). pp. 72-84 © 1998 Blackwell Publishing.

THE DEARING REPORT AND GOVERNMENT RESPONSE: A CRITIQUE

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22 September 1997

Political Quarterly, forthcoming

Financial support from the Nuffield Foundation is gratefully acknowledged. This article is a shortened version of evidence to the House of Commons Education Selection Committee (Barr and Crawford, 1997).

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Health warning: events are moving fairly fast so that some of the discussion in this paper may be out of date by the time it is published.

1 The Context

The central fact of British higher education is the increase in the participation rate from an élite 5 per cent in the early 1960s to a mass 30 per cent by the mid 1990s. Recent expansion has been particularly sharp — from 14 per cent in 1990 — but without any parallel increase in funding, leading to problems which are both economic and political.

There are three sets of economic problems. First, universities are poor. Student numbers in Britain almost doubled between 1990 and 1996. Real funding per student fell by nearly 30 per cent (CVCP, 1996, p. 4).

Second, students are poor. There is widespread agreement that students need about 20 per cent more to cover their living costs than is available from the current mix of grant, parental contribution and loan. To make matters worse, many students do not receive even that inadequate amount. Studies show (Barr and Low, 1988, pp. 31-4; Barr, 1989, pp. 17-18) that in the early 1980s about half the students entitled to a parental contribution received less than the assessed amount, and the shortfall was substantial; students whose parents gave them less than the grant system supposed received only £53 of every £100 of assessed parental contribution.

Third, the top-up loan scheme introduced in 1990 has major design deficiencies which were predictable, predicted (Barr, 1989, Ch. 4), and wholly accepted by Dearing. Its central problems are that it has repayments organised like a mortgage, rather than *income-contingent* repayments, i.e. repayments of *x* per cent of a person's income until he or she has paid off the loan, and that it saves the taxpayer little, if anything.

Political problems are in many ways a consequence of the economic problems. The major debate is whether students should pay fees. There is an emerging international consensus that they should, but *only* if any fee contributions are supported by income-contingent loans, i.e. there should be no up-front charges. Even more contentious is whether different universities should be able to charge different fees. The issue has a major economic dimension (discussed in section 4), but it is also political and cultural.

In the face of these problems, a National Committee of Inquiry into Higher Education (the Dearing Committee) was established in 1996 with a broad remit and instructions to report in summer 1997, thus ensuring that higher education finance was off the election agenda.

Notwithstanding its breadth, the key parts of the Report concerned funding. It is funding which is the urgent crisis; and it is the funding régime which establishes the foundation on which higher education will grow and adapt. This paper therefore concentrates on the funding parts of the Report. The next section establishes objectives. The two sections which follow describe and assess the key Dearing recommendations on funding and the government's initial response. The concluding section sketches out a way ahead.

2 Objectives

The expansion to a mass system has major (and obvious) implications: public funding of a high-quality system is possible for a 5 per cent system. It is not possible for a mass system. Thus *a mass system requires public funding to be supplemented on a significant scale by private funding*.

Private funds can derive from four potential sources — family resources, student earnings while a student, employers, and students' future earnings. The first three are only partial answers. Excessive reliance on family resources is inequitable (Barr and Low, 1988); and earning activities compete with study time and leisure. Employer contributions, though worth reassessment, cannot be pushed too far without becoming a tax on graduate employment. In a mass system, therefore, the only source of funding which is large and not grossly inequitable is a system which allows students to borrow against their future earnings.

Two core objectives follow directly. What is needed is a financing mechanism which:

- *Improves access* — an objective about which Dearing is passionate. It is well-known that this means a loan system which does not deter applicants. But, less explicitly realised, it *also* means that students should have an adequate standard of living while students.

- *Makes more resources available*, so as to restore quality and continue expansion, and to finance the actions necessary to improve access. Since these resources cannot be public, they must be private.

Both the Dearing Report and the government's response should be judged by the extent to which they achieve these objectives.

3 Key Dearing recommendations

3.1 Overview of the Report's content

The Report contains a summary and main report (UK National Committee of Inquiry into Higher Education, 1997a, b), a Report of the Scottish Committee, 5 appendices and 14 supplementary Reports, also available on a web site (http://www.leeds.ac.uk/educol/ncihe) and on CD-ROM. Coverage includes higher education systems in other countries (Appendix 5); widening participation by ethnic minorities, women and alternative students (Report 5) and students from lower social classes and students with disabilities (Report 6); a DfEE submission on real rates of return to higher education (Report 7); externalities and higher education, a review of the new growth literature (Report 8); the development of a framework of qualifications in relation to continental Europe (Report 11); modelling funding options (Report 12); and individual learning accounts and a learning bank (Report 13).

The Report's 93 recommendations (listed in the Summary Report, pp. 42-54 and Main Report, pp. 370-82) are broad. It can, however, be argued that three elements were central: quality, access and funding.

Quality. A whole series of recommendations concerned the quality of teaching and facilities. '[T]he representative bodies ... should immediately establish a professional Institute for Learning and Teaching in Higher Education' (recommendation 14). Recommendations 23-26 strengthen the powers and broaden the remit of the Quality Assurance Agency.

Access. The emphasis on access is shown by the three Reports (5, 6 and 13) which concern the issue. Specific recommendations included ' ... pilot projects allocating additional funds to institutions which enrol students from particularly disadvantaged backgrounds' (recommendation 4). As discussed below, the Committee also advocated retaining the maintenance grant explicitly for reasons of access.

Funding. We shall be critical both of the Dearing funding recommendations and the Secretary of State's response. However, both sets of recommendations are shaped by a binding assumption that there will be few, if any, extra resources for higher education in the short run. As discussed later, a key constraint is the way the Treasury classifies student debt in the national accounts (the subject of Recommendation 80). We assume that, in compiling the Report, the Dearing Committee felt it would be unsafe to assume an immediate change in public accounting practice, not least because resolution of that problem lies outside the power of the Committee's sponsoring Department. If the Committee had felt able to relax that assumption, we firmly believe that the shape of its recommendations would have been significantly different. Most of the rest of the paper is about funding.

Other recommendations. The following indicate the breadth of issues addressed by the Report.

- A series of recommendations (54 - 60) relate to the governance of institutions.
- On the births and deaths of universities, recommendation 64 establishes powers for 'the removal of degree-awarding powers where the Quality Assurance Agency demonstrates that the power to award degrees has been seriously abused,' and recommendation 66 calls for 'greater clarity about where responsibility lies for decisions about the establishment of new universities ...'
- Recommendation 67 seeks to bring together further and higher education more seamlessly.
- Recommendation 88 suggests another review of higher education in five years' time and, thereafter, every ten years.

3.2 Emphatically right

Two of Dearing's recommendations — 78 and 80 — are utterly essential and stand out as by far the most important in the Report.

Income contingency. 'We recommend to the Government that it introduces, by 1998/99, income contingent terms for the payment of any contribution towards living costs or tuition costs sought from graduates in work' (Recommendation 78). This recommendation represents an essential reform of the present mortgage-type loan scheme. Full income contingency means that people make repayments of (say) 3 per cent of their weekly or monthly income.

Income contingency is central to achieving the access objective, as Australian experience amply demonstrates (Chapman, 1997). It does so because it is rooted in ability to pay: it tailors repayments week by week to what people can afford, thus protecting individuals from risk. It means that those who can afford to repay do so, and those who cannot are protected from debt (for fuller discussion, see Barr and Crawford, 1997, Appendix 1).

The classification problem. The Treasury currently takes the view that *all* student loans count as public expenditure just as if they were grants, taking no account of the fact that a large fraction will be repaid. Thus student loans bring in little extra money until the system is mature (for fuller discussion and a range of solutions, see Barr, 1997). The Report rightly stresses that it is vital to solve this problem — and does so in remarkably strong language.

> 'We have noted that the UK adopts a broader definition of PSBR [Public Sector Borrowing Requirement] than a number of other countries and a broader one than it is required to adopt under the Maastricht criteria' (para. 20.89).

> ‘[W]e see no merit in the present practice of treating loans in the same way as grants. It misleads rather than informs’ (para. 20.90).

The Treasury takes this view even if student debt is sold to the private sector. Here, the Report argues (para. 20.97) that

> ‘to classify loans as public expenditure because the repayments are collected on an agency basis through the Inland Revenue, even though much of the risk of non-payment is borne by the private sector owners of the repayment rights, seems to be at variance with the substance of the matter’ (para. 20.97).

Thus:

> Recommendation 80: ‘We recommend to the Government that it looks urgently at alternative and internationally accepted approaches to national accounting which do not treat the repayable part of loans in the same way as grants to students.’

Any change must conform with a range of IMF and EU criteria. There are two potential ways forward:

- Continue with publicly-funded loans, but adjust the way in which they enter the public accounts. This approach can be implemented rapidly and in ways compatible with international statistical criteria. Australia has just such an adjustment (see Barr and Crawford, 1997, Appendix 2).

- Sell student debt to the private sector so as to bring in private funding.

The Report is spot on in saying that this problem needs to be fixed — and fixed fast. If not resolved, the problem is terminal. It is true that loans will bring in additional resources from around 2020 — but you cannot revive a corpse. Resolution, in contrast, will release a ‘pot of gold’ of over £1 billion *immediately* and *every year* (Barr, 1997).

3.3 Potentially problematical

The Report’s preferred option (Option B in Table 2.2 of the Report; see also Table 1, below) has three elements:

(a) 50 per cent of student living costs from an income-contingent loan;
(b) 50 per cent of living costs from a mixture of grant and parental contribution;
(c) a tuition contribution of 25 per cent of average tuition costs.

Taking these in turn, (a) has already been widely welcomed; (b) and (c) require discussion.

The case against grants. The Dearing Report argued for the retention of the grant because it is targeted on the poorest students. There are several counterarguments.

First, retaining grants wastes a ready-made political consensus. The principle of income-contingent loans to cover *all* living costs was endorsed in submissions to Dearing by the CVCP (the suppliers), the NUS (the consumers) and others, including ourselves (Barr and Crawford, 1996).

Keeping grants, second, wastes the chance to abolish parental contributions, which create problems more serious than are generally appreciated: they aggravate student poverty, reduce student freedom and have a pernicious gender gradient, particularly for certain ethnic groups (see Barr and Crawford, 1997, Appendix 3 for fuller discussion).

Third, grants are unnecessary with universally available income-contingent loans. Resources are scarce. Thus it is necessary to target them on those who need help most. One way of doing so is through an income test. The right income to test is the student's future income, not her parent's or husband's current income. That is exactly what income-contingent repayments do — by basing repayment on where people end up rather than on where they start, they get the income test right, and hence increase the progressivity of the system in comparison with means-tested grants.

Finally, grants waste resources which could do more for access if used differently. If after due consideration, the Treasury accepts Recommendation 80, the replacement of maintenance grants by loans will release significant resources in the short as well as the long run. These resources can do more to improve access if used in other ways, of which examples are given in the concluding section.

Arguments about flat fees. Recommendation 79 states:

> 'On a balance of considerations, we recommend to the Government that it introduces arrangements for graduates in work to make a flat-rate contribution of around 25 per cent of the average cost of higher education tuition, through an income contingent mechanism... The contributions made by graduates in work in this way should be reserved for meeting the needs of higher education.'

In practice, the recommendation is to impose on students a flat fee of about £1000 per student per year, irrespective of subject studied or university attended — broadly along the lines of reform introduced in Australia in 1989.

The Report rightly argues that students should make a contribution to the costs of their tuition. It is also right to argue (Report XX) that there are also broader benefits to society, so that the state should continue to make a significant contribution.

There are very different views about the rightness, or otherwise, of charging fees to students.

View 1: the wrong way — there should be no fees at all. The counterarguments can be expressed simply. Free tuition is unaffordable in the mass system of higher education which we now have. Second, graduates, because of their degrees, generally earn more than nongraduates. In 1996/7 the gross weekly earnings of the average graduate were £457 per week; the comparable figure for nongraduates was £237. Thus it is both efficient and fair that graduates make a contribution. Third, charges are levied for most postcompulsory education and training. It is thus unfair that only full-time undergraduate students — in many ways tomorrow's best off citizens — are completely exempt. Free tuition, fourth, is unnecessary if universal income-contingent loans are available. Finally, free tuition, like maintenance grants, wastes resources which could do more for access if used differently.

View 2: an important stepping stone. It can be argued that the flat-fee approach worked well in Australia, and is a model from which we can learn. It is also argued that Dearing has made an important gain by establishing the principle of a student contribution to fees. A move from no fees to variable fees is too big a jump, according to this view, and establishing flat fees therefore an important stepping stone.

View 3: unhelpful to the long-run inevitability of variable fees. This depends on the nature of the Government's response, and is therefore taken up below.

Why did Dearing take this route on maintenance and fees? Dearing was well aware of the arguments about variable fees and the replacement of grant by loan. Why, then, did the Committee retain the grant and go for flat-rate fees? The answer is simple: the classification problem discussed earlier left them with nowhere else to go. If loans count as public spending, then making them more generous — for example extending loans to replace parental contributions — and extending them to larger numbers of students adds to public spending, as does intervention to encourage staying on in school. Thus there was no way to give students more money. Yet there is a funding crisis: not only students, but also universities need money. The only way to get money for universities was to impose a fee and hope that the Treasury would not claw it back, at least immediately.

4 The Government's response

4.1 The response

Given the potentially unpopular and controversial nature of some of the main Dearing recommendations, the Secretary of State clearly felt that there were advantages in outlining at an early stage the direction of the Government's thinking. His response (*Hansard* (Commons), 23 July 1997, cols. 949-51) had five key elements, discussed in turn.

Table 1: The Current System, Dearing Preferred Option and the Government's Initial Response

	Living expenses	Tuition
Current system	50% mortgage-type loan; 50% grant/parental contribution	Free
Dearing, Option B	50% income contingent loan; 50% grant/parental contribution	£1000 flat-fee from income-contingent contributions
Government		
'Poor' student	100% income contingent loan	Free
'Rich' student	Parental contribution of 50% of living costs *minus* £1000; Income contingent loan, the rest	£1000 flat-fee from parental contributions

Endorsement of the principle of income contingency. This announcement has been welcomed by virtually everybody in higher education.

A flat-rate, means-tested fee of up to £1000. Though not much detail was announced, some features are apparent. The most glaring is that the fee will be paid out of the parental contribution, i.e. the fee will be *upfront and not supported by a loan entitlement* (see Table 1).

Replacement of the grant by an income-tested loan entitlement. The grant will be abolished, and replaced by a loan entitlement *minus* any remaining parental contribution.

These arrangements are complex, so that a simplified numerical example is helpful. Suppose that students are deemed to need £4000 to cover living costs, made up, under present arrangements (line 1) of a loan entitlement of £2000 and grant/parental contribution of £2000. Thus the maximum parental contribution (for a student not eligible for any grant) is £2000. Under Dearing Option B, a student receives £2000 in grant/parental contribution and a £3000 income-contingent loan to cover the remaining £2000 of living costs plus the £1000 tuition fee. Under the Government's proposals, a poor student is eligible for an income-contingent loan of

£4000 to cover living expenses, and does not have to pay a tuition fee. A rich student receives £2000 in parental contribution, £1000 to cover the tuition fee and £1000 towards living costs, and is eligible for an income-contingent loan of £3000 to cover remaining living costs.

A lack of enthusiasm for top-up fees. This is problematical. A system of mass higher education is too complex for central price control to be compatible with quality and diversity. One of the desirable features of a mass system should be greater diversity of activities and hence greater diversity of costs. In theory differential costs could be accommodated by an all-knowing central planner. In practice the task is too complex. It is not yet clear if the Government will move legislation to prohibit differential pricing.

A timetable. The Secretary of State announced the intention to bring in the fee contribution for all students entering university at the start of the 1998/9 academic year.

4.2 Comments

The Government's proposals raise four sets of serious problems: they produce no more resources for students or universities; they put access at risk; they create inequities in other ways; and they cannot be implemented within the proposed time frame.

No more resources. The logic is distressingly compelling.

- Public spending on higher education will not go up (the budget said so).
- Parental contributions (i.e. private spending) will not go up (the Secretary of State said so).
- Loans to students (the other potential source of private spending) count in their entirety as public spending.

If *public* spending is unchanged and there is no extra *private* spending, there is nothing extra for higher education. Both Dearing and the Government propose genuine resolution of long-run funding problems but, as things stand, do not produce a brass farthing in the short run.

Two potential counterarguments do not fly. First, it is argued that loans will bring in private resources. This is true, but the time scale is medium term at best. Official figures (*Hansard*, 24 July 1989, WA col. 441) show that the current scheme will make no cumulative saving until 2015 (i.e. 25 years after its introduction). On more realistic assumptions, the scheme will not make a net saving to the taxpayer for 100 years. The new scheme will be better designed; but any scheme which lends to large numbers of students and allows extended repayment periods (both of which are desirable for access) will lend large amounts from day 1, but will begin to receive its first trickle of repayments only in the fifth year.

Second, it can be argued that the government will raise resources through its planned sale of the existing stock of student debt. This, again, is true, but those revenues are already included in the higher education budget. Moreover, as the Dearing Report points out (para. 20.97), the proposed debt sale fails to meet the Treasury's value for money criteria. The arrangement has been described as a firesale and — after allowing for the cost of guarantees and continuing interest subsidies to the buyers — is unlikely to yield more than 50 per cent of the face value of the debt.

The government's proposals might make things worse by *increasing* public spending. If students have to cover fees as well as maintenance, the take-up of loans will increase. Currently about 63 per cent of students take up their loan entitlement, borrowing a total of £879 million. If take-up increases to 90 per cent, total lending would increase by about £375 million. Thus the changes may be a negative sum game. This is plausible for two reasons: with no grant and a charge for fees, students will *need* to borrow more; and income-contingent repayments *reduce the inhibition* to borrowing. Since income-contingency is critical to protect access, this is the whole point of income contingency.

There is one partial offset. Suppose a parent voluntarily pays more than the assessed parental contribution and, in consequence, the student takes out a smaller loan. This substitutes parental contributions (private) for loans (public), on the face of it improving matters. These private resources, however, are unquantifiable in advance, hence cannot be allocated to the higher education budget, and hence will probably revert to the Treasury.

None of this precludes a small increase in resources from administrative or other savings, for example the additional resources announced in September. But given the Government's spending commitments and stated priorities in other areas, the scale of any such resources are nowhere near commensurate with the needs of the current financial crisis.

In short, the current proposals produce no additional resources, hence do nothing to restore quality, to finance continued expansion, or to improve access. Students remain poor; universities remain poor.

Potential adverse effects on access. The Government's fee proposals pursue an equity objective through a *price* subsidy (i.e. reduced fees for poorer students) rather than an *income* subsidy through income-contingent loans (for the analytics, see Barr, 1993, Ch. 4). The problem with this approach (which is rather Old Labour) is that it can frequently hurt the very people it is intended to help, for example excessive rent subsidies, which have led over the years to waiting lists and labour immobility. It is therefore not surprising that the proposed arrangements, notwithstanding the government's strong commitment to improve access, are profoundly unhelpful.

Access is harmed, first, because student living standards are inadequate. Even if a student receives all assessed parental contributions or, in the case of a poor student, a loan to cover all living costs, the level of payment is 20 per cent too low.

A second problem is strengthened reliance on parental contributions, which are profoundly regressive social policy (for fuller discussion, see Barr and Crawford, 1997, Appendix 3). It is wrong in principle to force young adults to depend on their parents; and it is at least as wrong to force people to depend on their spouses. In practical terms, many parents do not pay in full, contributing to student poverty, and others do so only on the basis of conditions about choice of subject or university.

Upfront fees are a third problem. Under the Government's proposals, the fee contribution is deemed to be paid through the parental contribution. The proposals thus include up-front fees (which is what parental contributions amount to). No government committed to access should contemplate such a policy. Though the Government has said that parental contributions will not increase, the effect of a fee charge unsupported by loans does just that — not by increasing the *total* parental contribution but by making it much more an *up-front* contribution. It is already the case that many bills (e.g. hall fees) have to be paid on day 1, at a time when students have not yet received their loans. In a very standard case, a parent has to make up to half of the annual parental contribution up-front. From 1998, the bill on day 1 will also include fees.

Parental contributions and upfront fees are regressive with respect to gender. Women are likely to be harder hit by the poverty issue. They are also likely to suffer greater curtailment of freedom, since parents are more likely to impose conditions on daughters than sons, and husbands are more likely to lean on wives than *vice versa*. Such disempowerment is likely to be particularly acute for women from ethnic backgrounds with weaker traditions of educating daughters.

A further impediment to access is the incentive to discriminate against British students. A flat fee will continue the erosion of quality at the best universities, which face the biggest shortfalls. British students could suffer in one of two ways. The quality of the best institutions might fall; British students could still get places, but the quality of the degree would be less. Alternatively, the best institutions will largely stop teaching British undergraduates (for whom they receive on average £4000 per year) and will use the fees from foreign undergraduates (around £8000 per year) to preserve their excellence. The government is considering trying to prevent British universities from charging additional fees to UK/EU students. Again, this is done for equity reasons; again, it ends up harming the very people it is aimed at helping.

In short, *no* student is any better off than currently; many are worse off; and women are likely particularly to be affected.

Other inequities. Impediments to access are one source of inequity. There are other ways in which the proposals are inherently unfair.

The proposals focus on starting point rather than outcomes. Lucky the shopworker's son who becomes a successful barrister, who pays no fees, unlucky the managing director's daughter who becomes a social worker. What matters is not where people start but where they end. The Secretary of State has said (*Times*, 24 July 1997, p. 20): 'Our solution reflects the graduate's earnings of the future, not the circumstances of today's student.' Alas, the Government's proposal, by retaining an income test on parental/spouse income, does exactly the opposite.

Second, price does not vary with quality. It is unfair (and will soon be seen to be unfair and hence politically unpopular) to expect parents to pay the same flat fee for a degree at Oxford as for a degree at Balls Pond Road Technical College, since the degree from Oxford is worth so much more — a fact of which employers are already well aware.

Problems with the timetable for implementation. Even if the policy were ideal, it cannot be put in place by 1998/9. Such dramatic changes as are being suggested require detailed planning. It is essential that administrative arrangements work smoothly and do not create unnecessary resistance.

Excessive haste can, and has, caused problems. Ministers had to move quickly in August 1997 to defuse public worries about the gap year. A further consequence of the Secretary of State's announcement, at a time when the details of income-contingent repayments had not yet been worked out, was to focus the attention of the press, and hence of prospective students and their parents, on the *stock* of debt (e.g. £12,000), rather than the *flow* of repayments (e.g. an extra 3p in the pound once the student starts earning). People generally think more naturally in terms of flow prices (e.g. our weekly grocery bill) than the stock — we would all be horrified if we knew how much we will spend on food (or drink) over the next 25 years. A much better way of presenting matters is to say to students (and their parents): 'You go to university; you have enough to live on; it is all free at the time; you get your degree and then you go out and start earning. Only when your earnings are high enough you pay an extra 3p per pound of earnings, which helps to pay for the education of the next generation.'

There are serious doubts about whether the many detailed changes necessary can be effectively implemented by October 1998. Who, for example, will collect fees from students? If universities, what will be the implications for administrative costs if they are asked to accept fees on a monthly basis? What will universities do where students or their parents cannot or will not pay? It is easy to imagine a situation where nonpayment of fees will absorb far more than the additional hardship money proposed of £250 million per year — how absurd to be forced to use scarce hardship resources to support the sons and daughters of middle class parents who refuse to help their own children.

These are not merely administrative matters: they have major implications for the political acceptability of reform. Administrative mishaps erode Ministerial credibility and public confidence, costing Ministers the chance to lead on the front foot and putting the new Government's credibility at risk.

Over the next year or so, a series of political rows is almost inevitable, for example over the withdrawal of grants and introduction of fees. If reform is to be successful, it is imperative to avoid rows where they are not necessary. A realistic timetable for implementation is a critical ingredient for that purpose.

Conclusion. The Government's objectives are entirely right. But current policy does nothing to achieve those objectives in the short run: they bring in no more resources, do not help access, and are unfair; and their unrealistic timetable puts the entire reform enterprise at risk.

5 A view ahead

If present policies continue unchanged — in particular if the expenditure classification issue is not resolved — the crystal ball reveals a clear but disturbing picture:

- With few or no extra resources, the funding crisis will continue, with declining quality and rising student poverty.

- Access, at best, will not get worse, but there will be no increase in university attendance by students from poorer backgrounds.

- There will be increased problems with unpaid parental and spouse contributions, putting at risk participation by groups who depend on such contributions. In parallel, if the task of collecting fees falls on universities, they will face a large and expensive new administrative burden pursuing bad debts.

- There will be increasing resentment by parents who have to pay the £1000 fee for a child at their local technical college, but see their neighbour paying the same fee for a son or daughter at Oxford or Cambridge.

- If the proposed timetable is not extended, there will be a long and inevitable series of implementation gaffes, with consequent — and entirely unnecessary — ill-feeling and hostility from the public. Ministers will spend a lot of time in television studios explaining administrative hiccoughs such as the gap year problem, rather than actively promoting the benefits of new policy.

Most of these problems are avoidable. Many policy directions are clear and imperative.

Income contingency. Income-contingent repayments should be based on the graduate's weekly or monthly income and collected by the tax or national insurance authorities (for details, see Barr, 1997).

Resolving the expenditure classification issue. Government should have two instruments for financing lending to students:

(a) the capacity to classify publicly-funded student debt in the public accounts in a sensible way;

(b) the capacity to involve private finance.

The mix of (a) and (b) would be a matter for Government choice in the light of prevailing economic circumstances. The two approaches are discussed in more detail in Barr (1997). Australia, New Zealand and (closer to Maastricht) Holland have all solved this problem, so that most lending to students is outside the budget.

There are important lessons to be learned, more broadly, from the way in which other governments have approached the issue. For example, the Australian method of classifying debt was the result of dialogue between the departments concerned, *including* the Australian Bureau of Statistics, in which all participants understood the objectives and co-operated in devising a solution which achieved them. This contrasts with the UK model, in which the Office for National Statistics is portrayed as a quasi-judicial authority rather than as an active participant in policy design. There are a number of policy areas — housing, transport, urban regeneration — which could be dramatically affected by a more transparent approach to this issue. It is a problem which should be addressed urgently by a government committed to reform. The wind of change must be felt in Whitehall as well as Westminster.

These two policies — income contingent loans, and extra-budgetary resources — are *essential*, the first to protect access and bring in private resources, the second to ensure resources *now* rather than a long time in the future. The classification problem, as stated repeatedly, is a strait jacket which has bound Sir Ron and the Secretary of State; if it is not removed, there is no escape from the ill-effects described above. Resolution of the problem, in contrast, opens up a whole range of options for enhancing access and improving quality.

Expanding loan entitlement is an essential component of improved access. It includes:

- Increasing the size of loans to 120 per cent of the current maintenance package, available without a test of parental/spouse income.

- Extending loans to part-time and postgraduate students who are currently disenfranchised.

- Extending loans to part-time and postgraduate students whose current entitlement is negligible.

Active policies to promote access include:

- Targeted scholarships at university level.

- Policies directed at 16-18 year olds.

The last point bears amplification. If policy makers are serious about access, the real push has to come earlier in the system. The Report (Table 7.2) shows that only 16 per cent of 18-year olds from the lowest socioeconomic groups qualify for university entrance by gaining 2 'A' levels or equivalent; of that total, however, *nearly half* go on to higher education. The implication is clear: if a student from a poor background can get 2 'A' levels, she has a very good chance of going to university — the trick is to help her to get those 'A' levels. Thus there is a significant role for targeted interventions to encourage people from poorer backgrounds to stay at school or further education until age 18.

Fees. Policy towards fees has two essential elements.

- A £1000 tuition contribution for all students, covered by a loan available without income test.

- Variations about this fee level, determined by individual universities, subject to a regulatory régime, with income-contingent loans to cover such fees.

Issues for the medium term include a new Inquiry in five years time (Son of Dearing) (Recommendation 88). Its remit should include the finance of higher education in the light of the inevitable change in patterns of demand which will result from students bearing a greater fraction of costs themselves. For example, there will be increasing demand for part-time courses and, at the other end of the spectrum, for accelerated full-time degrees. For such purposes, university funding should not be per year of full-time study, but per course unit. The follow-up

Report will also need to evaluate improvements in access and, particularly, impediments to access resulting from any changes made. This is more necessary the greater the extent of continued parental/spouse contributions.

A second issue for the medium term (McDearing) is the likely need for a further Scottish Report, since it is highly probable that the proposed Scottish Parliament will wish to consider matters in the context of Scottish specifics.

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