

HE Beyond 2015: Outlook gloomy unless the system of finance is corrected

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H E Beyond 2015: New Student Choices, New
Economics, New Technologies

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HE Beyond 2015: Outlook gloomy unless the system of finance is corrected

- 1 The backdrop
- 2 What determines access?
- 3 The 2012 reforms: What's wrong?
- 4 How to repair the system

1 The backdrop

- The 2006 reforms got it broadly right
- The 2012 reforms are a step backwards and are unsustainable
- The shape of reform necessary in the 2015 White Paper is clear

Objectives

- Quality
- Access
- Size
- BUT: fiscal constraint

2 What determines access?

2.1 Political drivers: the great fallacy

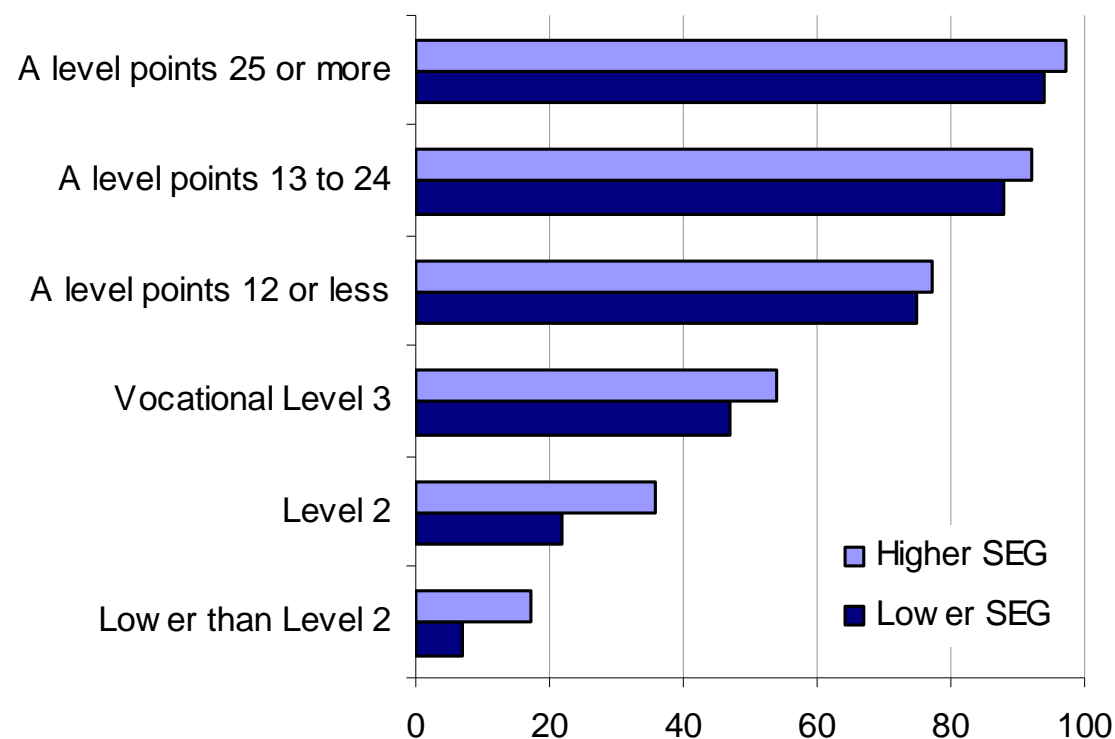
- According to ‘pub economics’ it is obvious that ‘free’ higher education widens participation
- Pub economics is wrong
- Access is much more a 0-18 problem than an 18+ problem
- ‘If I were a real socialist, I wouldn’t spend a penny on higher education. I’d spend it all on nursery education’ (Charles Clarke, 2003)

2.2 The evidence

- Early child development is central
- Evidence on critical developmental windows, e.g. first 22 months
- Tests of cognitive abilities from 22 months onwards
- August babies

Who goes to university? It's school attainment, stupid

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



Conclusion: What stops people going to university?

- Credit constraints: a good loan system addresses this problem for most people
- Constraints with earlier roots: growing awareness that the major impediments to participation are
 - Lack of attainment in school
 - Deficient information
 - Low aspirations

2.3 Results of the 2006 reforms

- 2006 strategy got it broadly right
 - Financing universities: variable fees
 - Addressing credit constraints: income-contingent loans to cover fees and living costs
 - Policies to address earlier constraints on participation
- HEFCE (2010) finds that ‘young people from the 09:10 cohort living in the most disadvantaged areas are around +30 per cent more likely to enter higher education than they were five years previously ..., and around +50 per cent more likely ... than 15 years previously’ (para. 28)

Why those results? The right policies

- Policies targeting early childhood included Sure Start and more nursery places
- Increased emphasis on basic skills
 - Literacy Hour
 - Numeracy Hour
- EMAs
- AimHigher

3 The 2012 reforms: What's wrong?

- The 2012 reforms do some good things, some bad things and some unspeakable things
- Here focus on two bad things
 - Fiscally expensive loans
 - Abolition of policies which tackle exclusion at their roots

The central problem: Fiscally incontinent loans

- Central problem of the 2012 reform is tragically simple
- In the system before 2012 the interest subsidy made loans fiscally expensive, hence the numbers cap
- The reforms rectify this problem
- But loans continue to be fiscally expensive because of the large increase in the repayment threshold from £15,000 to £21,000 and indexed
- Thus the new system creates the same problem – the numbers cap – for the same reason – the high cost of loans

Why does this matter?

- The cap on student numbers
 - Fails the size objective
 - Harms access
 - Mutes competitive incentives to quality
- To make matters worse
 - Cuts to Sure Start
 - Abolition of EMAs and AimHigher

Why this policy?

- The higher repayment threshold seemed to be politically saleable
- But by leading directly to the numbers cap the reforms harm the people they are claimed to help

4 How to repair the system

Identify the impediments to access accurately

- Can't afford it: for most people the right policy is well-designed loans with income-contingent repayments
- Failure to get to the starting gate, i.e. no A levels, usually for reasons that go back much earlier. The right policies include:
 - Emphasis on early child development, e.g. Sure Start
 - Continued emphasis on literacy and numeracy
 - Better advice (pupils and teachers) about subject choice
 - Financial support to complete A levels, e.g. EMAs
 - Action to improve information and raise aspirations, e.g. AimHigher

- Problems at the starting gate: someone might get good A levels but not apply to university
 - Debt aversion
 - Mainly risk aversion; main solution is better information;
 - Where that fails, grants
 - Part-time options:
 - Assists access by offering a low-cost experiment
 - Also assists matching between
 - Students with diverse preferences and constraints
 - HEIs that are diverse in terms of subject, academic approach, location, teaching mode

The next White Paper

- Among other policies
- Restore some T grant as block grant
- Reduce the cost of loans to the taxpayer
 - Make loans less leaky
 - Share the cost of non-repaid loans between
 - The national cohort of graduates
 - Universities via a university-specific risk premium
 - Thus the taxpayer cost of expansion is small, making it easier to relax the numbers constraint
- Restore EMAs and AimHigher or successor institutions

Conclusion

- Not just an exercise in logic chopping: the arguments about the determinants of participation are important
- Pub economics leads to the wrong diagnosis and therefore to the wrong prescription
- The resulting policy spends money on those who get to higher education instead of improving earlier education, providing more and better information, and raising aspirations, and thus spends money on a policy that not only does not work, but actively harms participation

References

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Office for National Statistics (2004), *Focus on Social Inequalities, 2004 edition*, London: TSO.

For assessment of the 2012 reforms

Nicholas Barr (2012), 'The Higher Education White Paper: The good, the bad, the unspeakable – and the next White Paper', *Social Policy and Administration*, Issue 5.

On the next White paper

Nicholas Barr and Neil Shephard (2010), Towards setting student numbers free, http://econ.lse.ac.uk/staff/nb/Barr_Setting_numbers_free_101217.pdf