A Roadmap for Free Education

Exploring our commitment to the public funding of higher education

national union of **students**

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Foreword

At the peak of the industrial revolution, we had the political ambition and the economic sense to make access to primary education universal.

Seventy years on, we made a similar leap forward during World War II, when it was understood that free, universal secondary education was needed to rebuild and strengthen the country.

It’s been another seventy years since the 1944 Education Act, and it is time for another leap forward. The time is right for free, universal tertiary education.

For we face a serious crisis: in our economy, in our society, in our education system. This is inextricably linked to an unbridled belief since the 1980s that the free market can solve pretty much everything.

But it hasn’t, and it won’t. We need to rekindle the political ambition of the past to find an alternative to the market ideology that has failed us.

A commitment to free, publicly-funded higher education is a commitment to ensuring that our universities are seen for what they really are - invaluable national assets – and remain as such. The 21st Century demands that tertiary education is treated with the same degree of public importance as primary and secondary schooling, and the National Health Service.

We need to return to the principles of public value, collaboration, and democratic accountability; and the way to do that is to return higher education to the people, to fund it through progressive taxation, and remove the destructive market forces that threaten its future.

Over the last thirty years, capital rather than labour has benefited the most from education. Businesses are profiting from high skills and low wages. And yet government has overseen a huge shift in funding away from the public purse and on to the individual graduate, despite the fact that their returns are shrinking.

They say we cannot tax the businesses, the super-rich, because they are “wealth creators”. But we know who the real wealth creators are: they are the teachers, the lecturers, the educators. They are building up the knowledge and skills of the country, unlocking potential, and fuelling aspiration. We should be investing in them, rather than protecting those who have driven the economy to its knees.

It is time for a serious review of how tertiary education is funded and provided. We cannot expect to build a more diverse and innovative economy, and a stronger and fairer society, without radically changing the way we educate and train.

This roadmap challenges those who want to bury their heads in the sand and pretend they can fix the broken system with tweaks and tinkering.

It lays out the irrefutable evidence to show that the Coalition’s market experiment has failed.

But above all, we make the case for publicly-funded education system and why it is not only achievable, but absolutely necessary in the current economic and political climate

In 2084, seventy years from now, the great grandchildren of today’s young people will look back on the decisions we make and either thank us for our courage in giving free education to the people, or forever condemn us for allowing the tragedy of fees, loans and debt to continue.

Toni Pearce

Toni Pearce, NUS President

Megan Dunn, NUS Vice-President
(Higher Education)

Introduction

A roadmap is used to plan a journey. It provides you with all of the options for a route, and helps you to avoid traffic and dead-ends along the way.

When it comes to free education, the destination is clear – a publicly funded tertiary education system that is run collaboratively and democratically in the public interest – but it is the journey that needs planning.

So we have put together a roadmap to help our politicians and our vice-chancellors to make the right decisions on higher education reform. We provide the evidence and the ideas to plan an affordable and practical route to free education.

And it all starts with addressing the broken system of higher education funding overseen by the current Coalition government.

We begin by laying out the case against the Coalition's reforms, which were an experiment in the marketisation and privatisation of higher education. There is overwhelming evidence of that this experiment was a complete failure. Step by step, we go through the Coalition's aims and show how they have not been met.

The evidence against the reforms is damning, and can only be taken as a clear reason for rejecting the idea that the market can provide the higher education system that society has the need for, and that every person in it has the right to.

We follow this critique of the current system by focusing attention on the reaction and debate within the higher education sector. There has been a worrying tendency of vice-chancellors to respond to the funding crisis by asking for higher fees and for more graduates to pay back more of the cost.

We believe that this argument runs counter to all of the evidence and represents a dangerous inertia from the leaders of our universities. We call on them to stand up for the sector and for the needs of society by looking beyond the market and the short-termism of raising fees.

After setting out all the evidence as to why the market has failed, and why it needs to be scrapped, we enter a detailed discussion of what free education would look like and map out the different routes of how to get there.

We begin by opening up the debate and rejecting the narrow confines of the neoliberal market discourse within which the current thinking around higher education is trapped.

This leads us to thinking about a comprehensive overhaul, not only of the funding arrangements for undergraduate higher education, but also what provision across the tertiary sector needs to look like.

One of the key first steps we highlight is to begin dismantling the market mechanisms that the fees system is designed to promote, including the attempt to develop a for-profit private sector in higher education provision.

We then look closely at the issue of contribution and ask whether the current understanding of public and private value is overemphasising the private gains of the individual while underemphasising both the public value of higher education and the private gains of business from the labour of graduates.

This is followed by some practical steps in redressing the balance of contributions through the tax system. We show that with marginal increases on the profits of business and on the wealth of the richest in society, government can fund the scrapping of tuition fees and give higher education back to the people.

Our analysis also addresses some of the key issues in free education for institutions. We outline how the sector can gain greater financial security without losing autonomy or academic freedom.

We also address the issue of homogenisation and look to the possibilities of opening up new educational routes throughout the tertiary sector, improving the overall value and productivity of education through fair and sustainable funding, democratic accountability, and the space to collaborate rather than to compete.

Fees, Loans, Debt, Broke…

"Undergraduate higher education is not seen by government as a public good, of value to society as a whole beyond those who receive it, and so worthy of public funding."

Claire Callender and Peter Scott, *Browne and Beyond*

Fees, Loans, Debt, Broke: a critique of the higher education reforms

Students at the Heart of the System?

In their 2011 white paper, *Students at the Heart of the System*[1], the Coalition government stated that they wanted to 'put students in the driving seat'. This has not happened. Instead, it feels like it's marketisation that's in the driving seat, with students in the back, being taken for a rough ride.

The Coalition government promised a higher education sector that would be 'more accountable to students, as well as to the taxpayer'. But students are not even getting the basic consumer powers that a functioning market operates with.

They said their reforms would 'deliver savings to help address the large Budget deficit'. But their (not so) clever accounting cannot hide the spiralling national debt from student loans that could wreck public finances for future generations.

They assured us that the market would deliver 'greater diversity of provision'. What it has given us is greater homogeneity, course closures, and the wiping out of part-time study. We also have public money being syphoned off by for-profit providers that are not effectively regulated for financial risk or quality of provision.

In what follows, we will set out a detailed indictment of the failures of this government's higher education reforms, with an aim to address the broken system we have been left with. We believe that it will become clear from this indictment that the system cannot be fixed through a series of tweaks; but that it instead needs a fundamental break with the logic of fees, markets and competition, to be replaced with public investment and democratic governance.

Debt and Deficit

The Coalition Government of the Conservatives and Liberal Democrats came into power with a mission to reduce the UK budget deficit. Deficit reduction became the main justification for the Coalition's reform to higher education funding, which replaced direct public funding from teaching grants with higher tuition fees financed by government loans.

On paper, the government's funding reforms appear to have helped lower the government deficit. This is mainly because of the way the government account for the deficit. Recently, they changed the preferred measure of the deficit to "cyclically-adjusted current balance" (CACB), which treats lending as capital rather than expenditure. This means that larger student loans to cover higher fees will not increase the deficit, whilst the cuts made to direct public funding of universities will appear to reduce the deficit.

The Coalition's accounting trickery is simple:

- Government raise the cap on tuition fees and offer students loans to cover the cost.
- At the same time, they reduce the amount of public funding to universities through the teaching grant.
- The fee rise in 2012 has increased the annual lending to students for student loans by around £5bn, but this *doesn't count* towards the deficit.
- The cut made to the teaching grant is around £3bn. This counts as a reduction in expenditure, therefore *reducing* the deficit.
- So overall, the government looks to be making a considerable reduction to the deficit by hiding the costs in the student loans system.

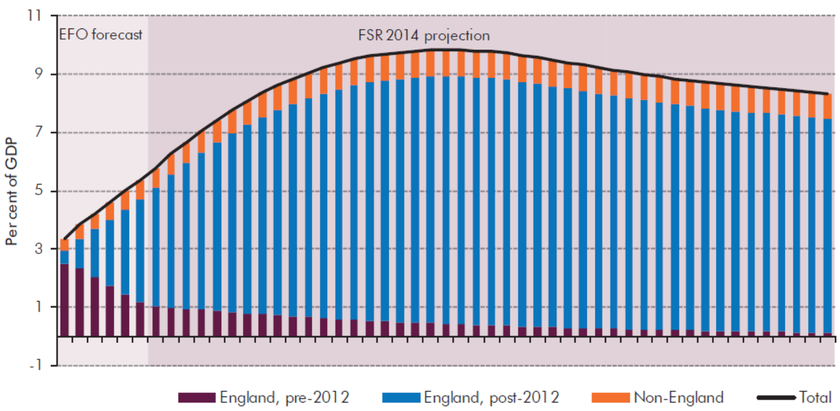
The question that we want to ask is whether there is actually any real benefit to public finances as a result of these changes.

We must consider, first of all, the fact that deficit reduction is deemed important because a large budget deficit puts greater pressure on government to borrow more money. This will, in turn, increase the national debt and the costs associated with servicing it (i.e. larger interest payments).

However, just because a reform leads to deficit reduction, this doesn't mean that it is reducing national debt. In fact, many of the Coalition's policies have increased net public borrowing. This may be acceptable in the short term, as long as it stabilises things in the long term. However, the outstanding debt created by student loans is set to spiral upwards to a predicted peak of £330bn by 2044, nearly 10 per cent of the country's GDP, mainly because of the increased lending to cover higher tuition fees.[2]

So, while the deficit appears reduced by the reforms, this is at the expense of an increasing mountain of debt on the government books which will continue to increase for the next three decades, and continue to remain high for decades after that. We have to conclude from this analysis that the most central justification for burdening students with higher fees, that the government needs to reduce the budget deficit and rebalance public finances, is flawed.

OBR Projection of additions to net public debt from student loans



Source: OBR

Value to the taxpayer

Another way to think about this issue is to compare whether the reforms constitute value for money to the taxpayer. This is the question asked by the Office of Budgetary Responsibility (OBR), a body set up by the Coalition government to monitor public finances. Their latest estimates are that the reforms have made a modest annual saving to the taxpayer of £700 per student for the 2012-13 cohort.[3] This would equate to an aggregate annual saving of around £0.8billion in 2014-15, after three cohorts of students had entered university under the current system.

A similar analysis conducted by the Institute for Fiscal Studies estimated the savings at £1254 per student over the full length of their course (thus an average of £418 per year for comparison).[4] This puts the aggregate public savings at less than £0.5billion for 2014-15.

David Willetts, the Universities Minister at the time of the reforms, had originally estimated the savings made by the reforms to be £14bn in 2014-15.[5] Clearly the level of saving is far lower than originally anticipated.

The main reason for this is that the estimate of the public subsidy on the post-2012 student loans - the Resource Accounting and Budgeting (RAB) charge – has increased considerably since the original costing of the reforms. The RAB charge was originally estimated at 32%, but latest estimates have it at 46%[6], meaning that for every £1 lent out to students, government will only receive 54 pence back in today's terms.

Gavan Conlon, an economist at London Economics, has estimated that if the RAB charge exceeds 48.6%, the economic cost to the Treasury will be higher under the new system than it was under the pre-2012 system.[7]

The figures show that, far from the system becoming 'more accountable to the taxpayer', the public have been misled over the true cost of the system.

This hasn't gone unnoticed by the checks and balances of Parliament. The government received significant criticism from the Public Accounts Committee over the accounting of student loans, and the potential misuse of public money from student loans by private for-profit education providers.[8]

Government have also faced a damning criticism from the BIS Select Committee, who have called for an urgent review into the sustainability of the student loan system.[9] The government have refused to take up these recommendations; they appear to be unwilling or unable to respond to the crisis of their making.[10]

Fees and Market Forces

Our opposition to the current system runs deeper than the fact that it is not cost effective or financially sustainable. The Coalition's higher education policy agenda has been ideologically driven by their commitment to marketisation and privatisation. Yet we have seen very little evidence that a market in higher education produces positive outcomes for students. In fact, the evidence seems to suggest that marketisation is hugely damaging to our education system, at all levels.

Let us consider three main perceived benefits of a competitive market: price competition, consumer choice, and improvements in quality of the product. Does the market in higher education provide any of these perceived benefits?

Race to the top

On price competition, it's pretty straightforward. The market ideologues in government and the think tanks may have believed that raising the cap on tuition fees would encourage universities to compete over price, but students remember the impact of top-up fees, where universities immediately raced to charge the maximum. We suggested that there would be another race-to-the-top, and we were right.

The average tuition fee in England is £8,601 for 2014-15, with 117 universities or colleges charging the maximum fee of £9,000 for at least one course – 72 per cent of those able to charge the maximum – and 42 universities and colleges (one quarter of those able) charging the maximum for all their courses.[11]

Fees are estimated to rise again in 2015-16 to an average of £8,703 with 130 institutions (76 per cent) charging the maximum for some courses, and 44 institutions (25 per cent) charging the maximum for all courses.[12]

When we look at only higher education institutions, a staggering 98 per cent of those with access agreements will charge the maximum £9,000 fee for some or all of their courses in 2015-16, up from 92 per cent in 2014-15.[13]

In short, the market reforms have made an undergraduate first degree from an English institution one of the most expensive in the world for the user. The overwhelming majority of universities have rushed to cash in on the raised cap. Many of them are quite happy to turn degrees into "Veblen goods", justifying fee increases by exploiting an irrational belief that high price always represents high quality.

Institutions should, of course, have had the courage and the foresight to have stood with students in opposing the government's reforms. Instead, they operated in a short-sighted and self-interested way by offering students no choice but to pay extortionately high fee levels.

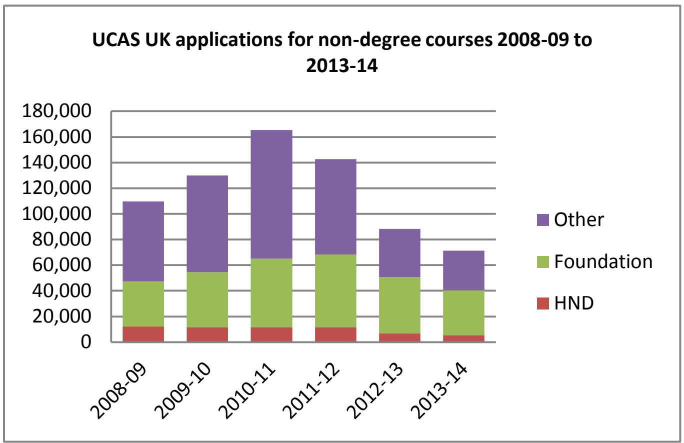
Homogenisation

If there is no real choice over the cost of a degree, perhaps there is more choice. This was certainly a major argument of government, that competition will open up diversity of provision and empower students to make informed choices about their study.

What we have seen, however, is a move to homogenise higher education provision, not to diversify. Universities are reacting to market forces, looking to find the easiest and cheapest way to ensure their futures.

As Andy Westwood, Chief Executive of Guild HE, has explained, universities have mainly resorted to full-time three year undergraduate degrees to plug the hole in their funding left by government cuts.[14] This has had a distortive effect on the sector, crowding out other modes of study that are deemed to yield smaller margins because they are more difficult or costly to provide.

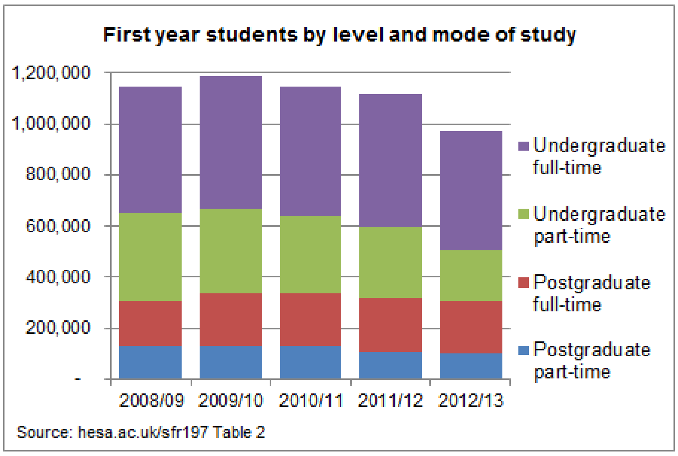
The combination of higher fees and shifting institutional priorities has devastated the part-time and mature sector. The principle of lifelong learning appears to be secondary to the competitive drive to generate efficiency savings by prioritising the full-time honours degree. We have also seen a huge decline in the provision of other forms of higher education such as foundation degrees, HNDs and HNCs.



An analysis of the latest UCAS data (above) shows applications for non-degree courses falling sharply following the implementation of higher fees in 2012. UK and EU enrolments on foundation degrees fell by 38 per cent between 2010-11 and 2012-13.[15]

The number of part-time undergraduate entrants has almost halved, falling from 259,000 in 2010-11 to just 139,000 in 2013-14.[16]

We find it altogether misleading of government - and other voices within the sector - to suggest that the health and productivity of the sector can be determined on the basis of full-time undergraduate admissions alone.



As shown by the table above, when part-time, postgraduate and other undergraduate courses are taken into account, the aggregate numbers of students in HE have fallen considerably, suggesting that the overall productivity of the sector has declined since the reforms to HE funding.

Put simply, we are getting fewer graduates despite government spending similar amounts on HE (in the long run), and despite the overall income of universities increasing.

Market-driven course closures

Other market-driven cost savings include the closure of courses that are deemed undersubscribed or too costly to provide. Often these are specialist courses, like nursing, that have a huge intrinsic value, and they often have higher enrolments from students from low participation groups.

The decisions to close these courses are often short-sighted and based on poor results or low admissions in a single year. There is no telling what the loss of these courses could do in the long-run, when a future society may well require different knowledge and skills in greater abundance.

But the market is not only leading to homogenisation based on efficiency savings; we have seen a number of institutions close highly popular – and highly rated - courses for the simple reason that they were not attracting the "right type of students", or didn't fit in with the institution's marketing vision.[1]

This runs directly counter to the logic that the market will encourage universities to meet the demands of students. Market competition seems to be acting as a disincentive on institutions to put on courses which attract students from disadvantaged backgrounds and low participation groups. It also seems to encourage some universities to adopt a kind of snobbery about their reputation.

As well as limiting choice, market-led homogenisation may have irreparable consequences on economy and society. As more students are forced into a shrinking number of courses, all with the same mode of study, it will be more and more difficult to differentiate between a growing number of graduates. Homogenisation may well produce skills gaps in the labour market and create a new underclass of graduates who are pushed into low-skill jobs and underemployment.

Markets and quality

This brings us to the question of quality. Is the quality of education provision being driven up by market competition? The basic argument is that universities will be forced to improve the quality of their service in order to attract more students (and their fees) to the university.

This argument is flawed, first of all, because it assumes that students are provided with unbiased information that enables them to make an informed choice. In reality, the measures of performance that students use as comparators have been shown to offer very little insight into the real quality of education they are likely to receive. This is a key argument of Graham Gibbs, who has stated that

> 'It seems unlikely that comparative indicators of quality currently available in the UK could provide prospective students with a valid basis to distinguish between individual courses with regard to their educational quality.'[17]

Linked to this is the problem of universities hollowing out their improvement strategies by focusing solely on ways to increase key performance indicators. Universities are consistently expected to compete on the basis of data provided to prospective students in Key Information Sets (KIS) and league tables. By doing so, universities will focus their attention solely on improving these scores, often at the expense of other important activities that could also improve the quality of education and the student experience.

In fact, there is clear evidence to suggest that some universities are finding extraordinary ways to influence the outcomes of quality measures like the National Student Survey. Universities will scare students into giving good feedback by telling them that a bad NSS result would lower the reputation of the university and subsequently deflate the value of a degree. Universities will send out strategic communications to focus on students they expect will give more positive feedback. We've even seen third year students offered cocktails and massages right before they are asked to complete the survey.

Style over substance

Perhaps more concerning is the fact that some institutions have circumvented the drive to improve quality by focusing on marketing, rather than making tangible improvements to the student experience.

The behaviour of applicants does not reflect a well-informed rational strategy driven by concerns over improving quality of provision, and it is subsequently open to abuse by persuasive marketing campaigns.

Furthermore, it is clear that higher education functions in a market of "choosers", not "users". Once applicants choose their institution and course, it is very difficult for a student to then change institution or course if it doesn't meet their expectations.

[1] For specific examples, read our submission evidence to the Office of Fair Trading, *Unfair terms and practice in Higher Education in England* (2013)

It is no surprise, then, that university spending on marketing was 33% higher in 2012-13 than it was in 2010-11, and 14.7% higher than 2011-12.[18]

The sector spent £36 million on marketing in 2012-13.[19] This is money that could – and should – be spent on the provision of education, rather than attempting to "sell" a glossy image of the student experience to prospective students.

A particularly prevalent tactic has been to focus on particular aspects of the student experience that universities can be most easily marketed to potential applicants. There has been a big push, for instance, to spend heavily on student facilities, such as student hubs and sports centres as a marketing strategy to entice applicants.

The principal point here is that high-quality education does not develop from universities working against one another to develop excellent teaching and learning in secret; it comes from academics working together and providing innovative forms of pedagogy, and sharing good practice across the sector.

Consumer Rights

Consumer rights are legally enforced to protect consumers against unfair practices in a market. The market reforms to higher education were allegedly supposed to empower students with such rights and make universities more accountable when they provide a substandard product.

It is clear to us, however, that these basic rights are being ignored by universities, who have been ill-equipped to uphold their responsibility in a market.

The ineffectiveness of the sector to self-regulate and comply with consumer law prompted the Office of Fair Trading to launch a call for information on the provision of undergraduate study in England[20], and a number of areas of bad practice were subsequently mentioned in the OFT's report[21] and subject to further review by the newly-formed Competition and Markets Authority.

In their report, the OFT stated that there were a number of practices 'which appear to be at odds with the spirit of consumer protection legislation'. These included 'fees increasing mid-way through students' courses, course content and structure changing without adequate notice or reason, and students incurring unexpected additional charges.'[22]

We do not believe that students should need to resort to the same kind of legal protections provided to consumers for mobile phone contracts or gym memberships. Students have the right to high quality provision because universities have a public duty to provide it.

The market has failed to protect students; however, a publicly-funded education system can and should be democratically accountable, and the culture of public duty and collaboration will do far more to empower students and staff in higher education.

Double-down and bust...

"The most rational way to deal with the financing of higher education is to have fees which are uncontrolled, with no cap, but in return [universities] have to make adequate provision for looking after students who can't afford to pay that fee.'

Sir Howard Newby, Vice-Chancellor of the University of Liverpool (quoted in Times Higher Education, 19/06/14)

Double-down and bust

A challenge to vice-chancellors

Considering the blatant failures of the higher education reforms instigated by the Coalition government, and the damaging impact of the marketisation agenda underlying them, it is surprising to find that voices in government, higher education, and the wider policy-focused intelligentsia are still saying that the answer to these problems is to intensify the market reforms, to raise fees further, to privatise more aspects of the system, and remove even more democratic accountability from education.

We can understand why the ideologues in politics and in the think tanks may take this view. To believe so dogmatically in something means that, even when faced with overwhelming evidence that your policies have failed, you cling to the idea that the problem is simply that the reforms didn't go far enough.

But when it comes to the views of our vice-chancellors, it is important that they see beyond the ideology as well as their short-term interests, and take on an honourable role as defenders of higher education for the good of society.

So this is our message to vice-chancellors: don't be fooled into thinking that the problems in higher education can be solved by passing off even more of the costs to students. Uncapping fees and unleashing the market is an incredible gamble to take, especially when the current system is already unable to cope.

The evidence below explains why we believe such a gamble will not pay off, and why we feel the higher education sector is selling itself short if it fails to stand up and fight for free education.

The absurdity of increasing fees

There are some voices within the sector that have been arguing the case for the increasing, even the uncapping, of tuition fees. The evidence stacking up against the current system suggests that the practicality of this position is deeply compromised.

The reaction to policy of uncapping tuition fees in Australia this year led to strong criticisms, not least from the chief architect of the Australian student-loans system, Professor Bruce Chapman. He has argued that the policy would lead to a substantial rise in fees above what government expects and lead to students paying out far more than the actual cost of teaching.[23]

There is also a strong likelihood that we would see far greater cross-subsidisation of university activity. Australia already has a large cross-subsidy of research through teaching funding derived from government grants and student fees, and uncapped fees are likely to shift even more of this responsibility on to the student. Such a situation would constitute a form of rent-seeking, as the student is being used to generate revenue for universities for which they may receive no direct benefit.

The evidence of the past two hikes in tuition fees in England suggests that a race-to-the-top is inevitable, as universities see it as the best way to maximise their revenue stream. The most selective institutions have shown a clear interest in raising fees far above the current cap, and the likelihood is that many other institutions will aim to follow suit, based on their belief that maintaining comparable fee levels will improve their reputation.

Perhaps one of the reasons why the Russell Group seem so keen on removing price controls in higher education is because they are aware that university reputation has a strong effect on graduate earnings and enough students will pay much higher fees to cash in on this even if these fees do not reflect the true cost of the course they are being provided. Rent-seeking is therefore likely to flourish in our most selective institutions if fees are uncapped, but there is no reason to expect the quality of provision at a rent-seeking institution to improve as a result of the increased revenue, or indeed be any better than an institution with lower tuition fees.

We also know that, while young people may well feel that they have little choice but to accept paying higher fees should they be raised, this is by no means true of all students. If we want to see the complete decimation of part-time and mature study, then uncapping fees seems like a sure-fire way of achieving it.

There will also be knock-on effects to the cost of postgraduate provision, which is likely to also suffer considerably as postgraduate taught fees are inflated by the comparative cost of a first degree. This will be an especially dire affair if we consider the lack of funding available and the lack of access already evident at this level.

But at what point does the cost of higher education to the individual student outweigh the economic advantages of a degree in certain subjects and sectors of the labour market?

Recent research for BIS on graduate premiums has shown that once the increased cost of a degree and income from a potential extra three years employment is accounted for, the net premium in some subjects is negligible, and in some cases even negative.[24]

Further increases in fees will further wipe out the already diminished graduate premium and produce a decrease in demand for degrees in a number of disciplines, particularly in the arts and humanities.

There is simply no justification for increasing the price students pay at a time when both the actual and relative advantages of a degree are declining.

We urge vice-chancellors to seek out fairer and more productive mechanisms for sustainably funding higher education. Fees are not an answer to the current crisis: they are part of the cause.

Expenditure and Financial Stability

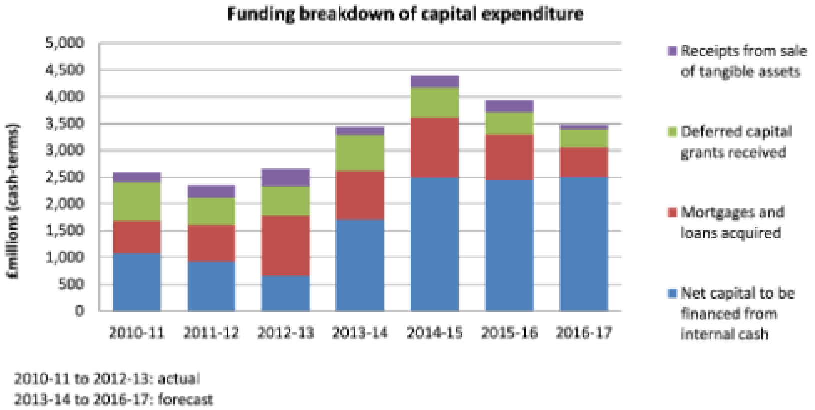
Universities UK have argued that tuition fees should rise with inflation, suggesting that universities are struggling to meet costs and are, according to UUK President Christopher Snowden, 'using cash reserves to support things like maintenance'.[25]

However, we have seen from HEFCE's report on the financial health on the sector that higher education has benefitted financially from increased fee revenue and that the pressures on university finances require a far more complex solution than simply increasing fees.[26]

The effects of further increasing market competition through fees may well lead to greater financial destabilisation. Evidence from the United States is showing that market forces and deregulation of fees has led to an "amenities arms race", with huge expenditure on buildings to attract new students.

There are early signs of similar competition between universities in England. Market competition, lower borrowing rates and larger fee income has led to increased spending on new facilities that can be used as a marketing gimmick to attract more students.

Heavy investment and borrowing that leads to financial problems for universities should not be solved by simply passing more costs on to the student. Also, whilst making such a claim, we've seen few vice-chancellors attempt to curb the above-inflation increases to their own pay, and the pay of their senior managers.



Source: HEFCE *Financial Health of the Higher Education Sector 2013-14 to 2016-17 forecasts*

Obviously with expanding numbers and aging facilities, the sector must have adequate resources to spend on its facilities, and on expansion. But there needs to be a bigger discussion about universities' internal finances and short-term financial behaviour brought on by market pressures, not simply a race to uncap fees.

Ultimately, if competition is driving risky and opportunistic behaviour, uncapping fees and unleashing the market will only lead to greater uncertainty, inequality, and financial instability.

Deficit Hyperbole

Supporters of higher fees are well aware that this will lead to higher student debt, and will therefore put greater pressure on public finances. Their arguments are, therefore, often coupled with a desire to change the terms of student loans to ensure that more is repaid to government. There are various proposals such as increasing the interest rate on the loans or lowering the repayment threshold. In each case, the individual student is expected to contribute more in order to prop up a badly designed and unproductive system of funding.

The fact that the sector seems tied up in a debate around how best to burden students with more debt reflects outright paranoia about fiscal responsibility generated by the Coalition's discourse of austerity. This discourse has constructed incredible myths about deficit and debt that have been used to justify cuts to public services and welfare provisions and the marketisation and privatisation of whatever is left.

Whilst we are aware of the objective need to ensure public money is spent wisely and effectively, we do not believe that this means the only options available in the funding of something as important as higher education should be to pass more of the burden on to the individual.

The hysteria about the budget deficit is unhelpful, especially when we have proven that the government's reforms are only helping the deficit by piling up long-term public debt. Vice-chancellors should be more attuned to the fact that alternative models of fiscal sustainability are possible, but are simply being ignored to suit neoliberal agendas. When we put forward our views on higher education funding, we take into account the long-term public interest, rather than the political interest of the current government.

Fool me twice?

We are concerned that the response of the higher education sector to fees and funding shows a considerable loss of vision over its public mission.

There is a serious legitimacy crisis in the current funding debate which stems from the fact that the same things are being said by the same people. The same sword is being dangled over students as it was four years ago, when a remarkably similar group sat down with Lord Browne to decide that the only way to save universities was to shift a much greater financial burden on the already overladen next generation.

We are yet to know what the impact of higher student debt will have on this generation, and yet there are voices already jumping at the prospect of increasing that debt even further, while at the same time wanting graduates to pay more of it back faster. And all of this at a time when the labour market is leaving thousands of graduates unemployed or underemployed and where more and more graduates are having to take up non-graduate jobs.

Vice-chancellors should take a careful look at the intergenerational unfairness of raising fees and think about whether a fee-loan-debt based system is really what is best for the country's future. We believe that any reasonable analysis of what has happened as a result of the current system should immediately deter someone from making the same mistakes again.

A Roadmap for Free Education

A Roadmap for Free Education

Changing the contours of the debate

It is in this final section that we set out our argument for free education. To do this, we must begin by challenging the narrow terms of the debate over higher education funding. In doing so we also reject the discourse within which this debate is being constructed: one in which the language of the market is unquestionably adopted.

We do not, for instance, enter this debate concerned about value for money for students, because we do not believe that the quality of the student experience should be dependent on the sticker price attached to it. The obsession with value for money is counter-productive as any answer to this question will be subjective and dependent on comparisons and value-judgements that students are not in the position to effectively make without being able to fully realise the overall cost and benefits of their study over the course of their life.

In contrast, our thinking is based on a more contextualised and long-term view of what higher education is for, who the main beneficiaries are, and what balance of contribution these beneficiaries should make in order to allow the sector to function most effectively.

We also believe that it is counterproductive to limit this conversation to how higher education is funded, because a financially productive model may well depend on changing *what* is being funded. While it may be difficult to fund an expanding number of students to take a standard three-year honours degree, it may be far more productive to envisage a funding model where people have more diverse and flexible study options across tertiary education.

Finally, the debate must address the possibility of using education as a tool for social and economic justice. Reforming the funding system of higher education should be seen as a chance to meaningfully intervene in existing inequalities in society, a chance that can be realised if we begin to look beyond the narrow confines of fees, loans and debt.

The meaning of “free”

The main point of a free education system is not that it has no cost, but that the cost is not directly incurred by those who use it. Rather, a user’s contribution towards the cost is part of a collective public investment.

It follows from this definition that there should be no price-tag attached to higher education. Having no price tag has a specific importance in that it removes the ability for education to be perceived as a commodity and sold on a market.

This means that the criteria for free education is not only contingent on the fact that there is no cost, up-front or retrospectively, to the user, but also on the fact that there is no price.

We could conceive, for instance, of a “voucher” system in which the state offers funding for individuals to “spend” at the institution of their choice. This is a mechanism used in public service provision (e.g. school choice policies in the US, Sweden, Chile and elsewhere) in order to stimulate competition between providers without creating a cost to the consumer.

We reject the idea that a market is necessary in higher education, and believe that our road to free education must begin with the removal of market mechanisms.

Removing the Market

We have set out in detail the reasons why the market has failed to improve higher education, and how, conversely, it has diminished its value and effectiveness. The market has no place in our education system, and the main driver for all of the most harmful aspects of market competition has been the creation and extension of the fees system in higher education.

We believe that tuition fees should be completely removed from education in order to begin dismantling the market. Fees are used purely as a way of creating a sticker price for a degree, constructing the fantasy of a market transaction to turn students into consumers and force universities into competition.

The fee level does not represent the underlying cost of provision, nor does it represent an attempt to quantify the value of a degree. The fee also doesn't represent the actual cost of study to the graduate in many cases, as often the cost will be written off in part or in full by government.

Of course, removing the sticker price of a degree does not necessarily remove the incentive for universities to compete. Even in the absence of a sticker price will still be present, as a large portion of university funding will still be based on the number of students it can attract.

Removing the fee is, however, the first major step in changing the discourse of higher education, ending the transactional relationship between students and their institutions that is simulated by the tuition fee. The next step will be to generate a funding system that provides universities with financial security and autonomy without generating unhealthy competition for funding.

Private Providers

It is becoming more and more apparent that any changes to higher education funding in public universities will also have address the issue of alternative providers, particularly those which are for-profit. We do not believe that it is in any way beneficial to students or society for organisations to profit from education. There is certainly no justification whatsoever for public funds to be syphoned off by private companies to provide education.

There are several options of how to deal with private providers. The most obvious start would be to ensure that they are not entitled to any public funding. This removes much of the concern about their encroachment on public higher education. The alternative sector should also be tightly regulated around cost, quality and student experience so that the margins become too low for anyone looking to make a quick profit, leaving only those committed to providing high quality education.

Fair contribution

In order to understand how we might go about creating a fairer system of higher education funding, we need to be clear on the beneficiaries of higher education and their investment in the system.

Much of the debate has been around the idea that there is a public and a private value to higher education, and that this justifies a system in which the individual contributes and the State also contributes as a proxy for the public interest, in which case society contributes to the funding of higher education through general taxation.

The level of public and private value and the subsequent ratio by which the contributions are split has been debated in a rather cold and clinical way by economists. A focus on finding some optimum level of public-to-private investment has led policy-makers away from some of the basic facts in this debate.

If we conclude that, on average, a graduate receives financial benefits from a university degree, it is fair to say that, even if the graduate contributed nothing towards higher education directly (through repayment of fees or compulsory contributions) they would still be contributing a higher level of support via general taxation, owing to the higher income they receive as a result of any graduate premium.

Therefore, it can be argued that in a system where there is no direct cost to the graduate, the indirect contributions a graduate makes are proportional to the individual benefits that they receive.

A graduate who receives no financial benefit from their degree we assume would contribute the same amount or less via general taxation that they would have had they not have entered higher education. A graduate who gains a high-paid job as a result of their acquired skills and qualification will, in contrast, pay a higher amount of tax and, therefore, a greater contribution than they would have done had they not attended university.

The public-private contribution argument is therefore flawed, because the revenue generated for the public contribution and the revenue generated for a private graduate contribution are not mutually exclusive. A successful graduate's individual contribution increases alongside their contribution as a taxpayer.[2]

Furthermore, as we explain below, only the wealthiest businesses and individuals need face increases in taxation, and small ones at that, to replace tuition fees with public investment.

The Private Gains of Business

Another key issue with the public-private debate is that it reduces the private benefits of higher education to individual graduates, when there is a third party that makes private financial gains.

Business and industry make money by turning the knowledge and skills of the graduates they employ into profit. They also gain from the research and development that goes on in educational institutions.

In 19th century England, the business owners of the time understood the importance of investing in education. The red-brick universities were founded largely on funding from rich industrialists, who saw this as part of their civic duty.

Yet today there is very little direct investment in higher education from business, and where business does invest, it is usually to capitalise on a particular project rather than contribute to the general funding of teaching and research.

Of course, like individuals, businesses pay tax and national insurance contributions, and this can be seen as a generalised contribution towards public investment in education. However, the level of corporation tax that businesses pay has been in sharp decline, and many larger businesses take advantage of various tax allowances and incentives. Some businesses also avoid paying tax by exploiting loop holes in the system such as using tax havens and transfer pricing.

The TUC has shown that 'over a period of a decade the effective tax rate of major UK companies has fallen heavily even though the headline tax rate fell by just 2%'. They also found that, although the level of tax UK businesses pay has fallen considerably, this has had no significant positive effect on growth and investment.[27]

Corporation Tax in the UK is now the lowest of the G7 countries and 25th out of 34 in the OECD[28]; next year the rate will be cut again to about half that of the United States. The cuts to corporation tax by the Coalition government are already costing the UK Treasury more than £5bn a year, and will cost almost £8bn a year by 2016-17.[29] This figure alone is equivalent to the teaching income for English universities from full-time undergraduate (Home and EU) fees and the HEFCE teaching grant.

You can also add to this the estimated £4.7bn of corporation tax lost through tax avoidance.[30] If HMRC also factored in the loss of tax revenues due to "profit shifting", where income and expenses are shifted around branches of the same company to lower the overall tax liability, the figure would be much higher than this.

We feel, therefore, that the benefits (i.e. the profits) that businesses receive greatly outweigh the contribution that many businesses, particularly the largest businesses, make to the cost of higher education.

A fair system of higher education funding should take into account the fact that the private financial gains from a university degree are, in most cases, shared between the graduate and her employer and are realised in

[2] This relationship is more complicated for an EU student, who may be entitled by law to receive a degree at the same cost as a home student but on return to their home country will no longer contribute to the UK Treasury. The same can also be said of a home student who moves abroad after graduating. However, there are ways in which the UK Treasury may be able to recuperate a fair contribution from said students through greater tax cooperation between EU countries, and by operating a graduate tax on expatriates.

the graduate's higher wage and the employer's profits respectively.

Free Education and Inequality

Let us compare the fairness of a system where the cost of higher education is shared between individuals and business to the current system of fees and loans.

One of the key arguments by supporters of the current system is that it is set up in such a way that those who fail to get any financial advantage out of their degree do not have to pay for it. This argument is based on the fact that a graduate earning below the repayment threshold of £21,000 will not pay back their loan.

There are some downsides to this form of subsidy, however. The first is that the debt will continue to increase with inflation if it is not paid off, so if in the future the graduate does find more lucrative employment, they may end up paying back more than someone who found a well-paid job straight away. The tapered interest rate on the loan can dampen some of this, but in many cases, those who benefit less (or benefit late) will pay back more in the long run.

A second downside is that it focuses on future inequalities in outcome, rather than the inequalities already present in the cohort applying to study. While there has been an attempt to improve participation rates from lower socio-economic backgrounds, and some financial support is offered in the form of bursaries and fee-waivers, the student loan system is broadly designed to ensure that most people are charged fees and will repay them if they earn enough after they graduate.

Free Education and Growth

The current fee-loan-debt system also has a problem with the economic productivity. The student loan system decreases the productivity of the economy by lowering the disposable income of graduates. If graduates are paying back X in student loan repayments, then they are not able to spend X in the economy, reducing growth and reducing tax revenue for government.

In contrast, a system in which a student pays no direct cost can be seen as a fiscal stimulus, where spending on higher education now (rather than on future loan subsidies) can stimulate demand in the economy and increase the savings rate of young people. In turn, government will receive a considerable portion of this money back through increased tax revenues.

Free education will therefore provide a healthy stimulus to the economy, with graduates able to spend or save more each month. This, of course, is coupled with a better quality of life for graduates, and less pressure to get into debt to pay the bills.

Setting a course

There is an unhealthy and unreasonable pessimism around the sector and in mainstream politics over the idea of free education. This was certainly not helped by the fact that the Liberal Democrats, who had pledged to phase out tuition fees at the last general election, used the policy as a cynical ploy to gain votes from students and young people, only to renege on their promise when in government, overseeing instead the trebling of tuition fees.

Part of it is also the deficit hyperbole that we have already criticised above, which has been used to spread vastly exaggerated fears about public finances, and to justify an ideological agenda that worships the market and aims to dismantle and privatise our public services. But we do not buy this and neither do students.

We see that free, publicly-funded higher education is available in many other countries in Europe, including Germany, which gave tuition fees a try and then decided to abolish them. Using fees as a means of lowering the public cost of provision is an idea that has been shelved for the foreseeable future in Germany. Germany's social democratic principles in the aims and structure of tertiary education meant that it would rather scrap fees than increase them.

Free higher education is also alive and well in the Nordic countries, including postgraduate study. In Norway and Finland, study is also free for overseas students from outside the European Union.

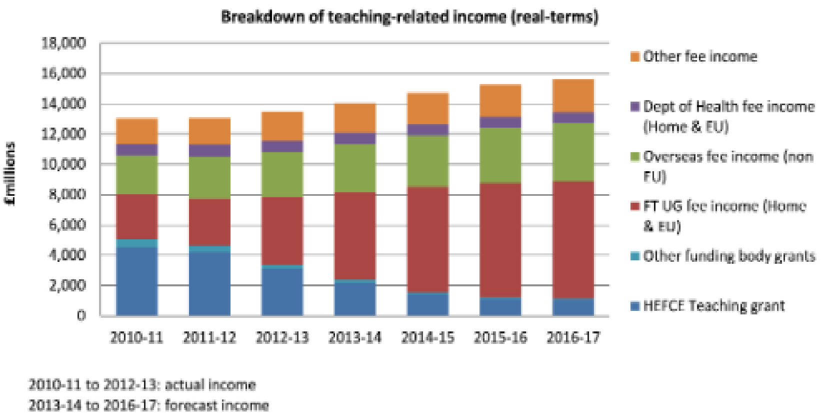
We should also, of course, highlight the fact that there is difference of opinion within the United Kingdom, with the decision of Scotland to scrap tuition fees for Scottish and EU students (but not for English, Welsh and Northern Irish students); while the Welsh Assembly decided to subsidise fees for Welsh students so that they did not incur the Coalition's fee increases.

Addressing the cost

It's also wrong to consider the cost of funding higher education to be unreasonable for government.

The level of direct public spending for teaching through the HEFCE teaching grant is around £1.6 billion in 2014-15.

In 2012-13, around £6.5 billion of revenue was generated from all undergraduate home and EU tuition fees, and this is projected to rise to around £10 billion by 2016-17.[31]



Source: HEFCE *Financial Health of the Higher Education Sector 2013-14 to 2016-17 forecasts*

If tuition fees were to be scrapped, the additional cost to government would depend on a number of factors.

First, we would assume that savings would be made to government by no longer issuing new tuition fee loans. New fee loans would carry a high RAB charge (up to 50%), and money is currently ring-fenced in the BIS budget by the Treasury to account for this. Government should be able to consider the money saved from the removal of future loan subsidy as money available to spend on higher education. How this impacts on the budget deficit will depend on how such a move is accounted for.

Second, government would not have to invest the full £10 billion immediately, as current second and third year students would continue to pay tuition fees. The investment to replace tuition fees would therefore be staggered over three years.

Third, the cost estimates are based on current projections for an expansion of student numbers. Whilst a decision to scrap tuition fees may well increase demand, particularly from EU students, this could be dealt with by having a more controlled increase in student numbers and by improving other educational routes in further education.

Evidence from Scotland has shown that the combination of good university reputation and the absence of fees can lead to increases in demand, at least in the short-term. The number of EU students enrolling in Scotland increased by 7% in 2013. But overall, the increases in Scotland were modest and manageable.[32]

Fourth, the figures also assume that the majority of students will take full time, three year degrees, but we argue that this is the result of an unhealthy homogenisation of the sector. If this is addressed by offering more flexible tertiary education and opening up new roads in vocational education, the overall cost of tertiary provision could be lowered.

A fair contribution from business

We are serious about increasing business investment in higher education, and this doesn't all need to come from raising taxes. Businesses can decide to invest directly into higher education as part of their corporate social responsibility, and incentives can be given to them if they do so.

However, we also believe that many large businesses in particular are not contributing a fair amount in tax as things currently stand, so an increase in tax on businesses should accompany other incentivised contributions.

To put things into perspective, HMRC estimate that a 1 per cent increase in corporation tax would generate almost £1.5bn of income in 2015-16, rising to £1.75bn in 2016-17.[33] George Osborne has been cutting taxes for businesses, but we have seen no positive economic impact from this. Instead, Osborne is putting greater pressure on the UK budget deficit by lowering tax revenues, while continuing to argue that we must face cuts to welfare and public services.

We believe that even a modest increase in revenue from business channelled into higher education could take a huge burden off of government and, ultimately, the individual taxpayer, and go a long way in making business pay a fair share towards generating the skilled workforce that they tap in to, rather than continuing to free ride.

Additionally, government should also consider implementing a financial transaction tax, or join the EU countries already implementing one. The UK financial sector enjoyed a huge bailout from the taxpayer, but the Coalition seem more interested in rushing to sell our stake in the banks and letting them get back to their high-risk gambling, rather than attempting to make them repay society for the crisis created by their unfettered self-interest in making profits.

The European Union are pushing ahead with a Financial Transaction Tax, backed by 11 countries, including Germany and France. While these countries will share billions of Euros in revenues, Britain will miss out, because the Coalition government decided not to sign up. In fact, the Coalition unsuccessfully attempted to block the implementation of the FTT in the European courts.[34]

If government were to implement a UK FTT, not all of the money raised would be channelled into higher education, as it is also needed elsewhere. But if government were to invest 10% of its projected share into the proposed public trust, this could amount to as much as £2 billion a year towards the cost of higher education.

As these examples show, around half of the replacement course funding for undergraduate higher education could quite easily come from nominal increases on the levels of tax that private sector business pays (for instance, from a 10% share of a FTT and a 2% increase in corporation tax). This is a small price for the benefits that businesses receive.

Progressive taxation

If we assume that the remainder of the funding will come largely from general taxation, we need to consider what sort of changes could be made and how progressive they would be.

As we have already mentioned, the extra revenue needed will depend on the additional funding that can already be channelled into the higher education trust from the savings on no longer issuing fee loans.

But assuming that savings will be made, we are likely to be left with a gap of around £4 billion. We believe that this money can and should be raised largely by increasing the level of tax on the richest in society.

There are various different ways in which a government could raise this money. Returning the additional rate of income tax back up to 50% would raise up to £800 million per year, according to HMRC.[35]

By increasing inheritance tax by 5%, which would affect only around 20,000 of the richest estates, at least £500 million could be raised.[36]

Scrapping the euphemistically named ‘entrepreneurial relief’ on capital gains tax could raise a further £1 billion and stop private equity executives running away with the extra cash.[37]

Of course, a large amount of revenue could be generated just by cutting down on tax avoidance schemes that wealthy individuals use to get out of paying their fair share. HMRC estimates that £4bn a year is lost to tax avoidance, which is almost as much lost to illegal tax evasion.[38]

An education trust

One workable approach to replacing fees with public investment would be to fund universities through an independent public trust into which contributions can be made by government (as proxy for the taxpayer, including the graduate) and business. HEFCE could be restructured to take on this responsibility, while the Student Loans Company remains a separate entity to deal with repayment of existing fee loans and the issuance and repayment of maintenance loans.

Unfortunately it will be financially impossible for government to rectify the mistakes of the past by fully compensating those who had to pay for their degree, or are in the process of repaying the cost. There is, however, an argument to be made that the three cohorts of students who have had to pay the extortionate tuition fees levied by the Coalition's reforms should receive some compensation in the form of a one-off rebate towards some of their fee loan.

Income diversity

We are interested in exploring different ways in which a proportion of higher education funding is distributed. It is understandable that institutions do not want to revisit days of the University Grants Committee; the reliance on funding from a single source limits the financial autonomy of institutions and may stifle opportunities to diversify income streams.

Part of the removal of the market and the restoration of local democratic control of higher education could come from distributing at least some of the money to replace tuition fees through regional authorities, to help develop and enhance the role that higher education institutions play within their regional and local communities.

In a slightly different model, institutions could be given a pot of funding earmarked for local and regional investment and work in partnership with local and regional authorities, business and the voluntary sector to decide how that money is spent to boost local educational participation and deal with skills gaps and social inequalities in local communities.

Funding for research should continue to be provided through the dual-support system and be distributed according to research quality and strategic importance.

However, we believe that the justification for continuing to concentrate the vast majority of research in a small number of highly selective institutions has run its course, and the funding system going forward should aim to encourage pockets of excellent research that are shown to have specific regional and national importance. Again, an element of research funding could be directed through regional authorities and universities could work in partnership to deliver research tailored to the specific needs of their local community.

Autonomy and Freedom

A contentious issue for university managers and academics will be the effect that full public funding could have on institutional autonomy and academic freedom.

Some universities are worried that the replacement of fees with direct public investment will mean that they lose some control over how they spend the money. Indeed, the more public money that enters higher education, the more justification and incentive government will have to ensure that the public's money is well spent.

We must consider how to protect the independence and autonomy of the sector and make sure that universities feel confident about the funding environment, without forgetting that higher education is a public asset. Universities should have autonomy, while being democratically accountable for how they use it.

Measures should be locked in place to create an independent trust to fund universities, one which itself has significant autonomy from political tinkering and works in partnership with universities, national and local government to ensure funding is distributed most effectively.

We must also consider the views of academics, who may be worried about a free education system leading to government dictating what universities teach and research.

Academic freedom is integral to higher education and it deserves protection. We want government or employers to act as facilitators and enablers to help the sector to develop better teaching and learning, not micromanage the structure and content of courses.

Removing the market will also help universities to replace some of the corporate governance that it has fostered with more collegial and democratic decision making.

Diversity of provision

The market has failed to provide the diversity of provision its supports promised us. We must use the opportunity to develop a new funding system to also deal with the problem of homogenisation.

Our higher education sector may well have an excellent world reputation, but evidence is growing to suggest that as a nation we are falling behind the rest of the developed world in producing a labour force with the necessary skills to drive a 21st century economy. We are, for example, near the bottom of OECD rankings on equipping 16-24 year olds with the right skills for technology-rich environments.[39]

There are serious questions over whether the standard undergraduate first degree can continue being used so widely in its current form. The labour market is being flooded with graduates that employers struggle to differentiate.

Demand for the full time first degree by young people remains high partly because of the lack of alternatives on offer. Investment in better technical and vocational education, providing more flexible provision in further and higher education, and building new forms of teaching and learning into degree are all necessary if we are to educate and train a new generation, and retrain older generations, to deal with the challenges of the future.

Diversity will certainly improve the productivity of tertiary education. The investment that the public make will go further and the outputs will be greater if we begin to build new pathways into and in parallel to the current undergraduate system.

We suggest that government work with stakeholders from across all levels of education, and with employers and trade unions, to hold a comprehensive review of tertiary education provision. This can occur during the three year period within which tuition fees are scrapped and replaced, helping government to make important decisions over how certain portions of replacement funding are channelled into the development of new forms of provision.

Conclusion

We have set out a clear and robust challenge to the dominant discourse within government and the higher education sector around how our institutions should be funded.

The government's experiment in fees and marketisation has been a catastrophic failure and is irreparable. We have detailed, step by step the inability of the government's reforms to deliver savings to the taxpayer, and have instead dramatically increased the national debt.

We have shown that instead of providing greater diversity of provision and more power to the student, they have narrowed choices, devastated part-time and mature study, while students have to negotiate bad marketing, spurious measures of quality, and complaints systems not fit for purpose.

The market has not improved quality, it has not increased diversity, and it has not led to price competition. It has brought none of the positive things its supporters said it would.

Moreover, we have made it clear that vice-chancellors are making a serious mistake in looking at deregulating fees. We have made clear from previous experience and experience abroad that this does not work.

Policy makers and sector leaders can no longer find excuses; they must take seriously the fact that a market in higher education does not work, or they will drive our world-class education system into the ground, and damage the life chances of future generations.

Our roadmap offers politicians the chance to repair the damage, and to go down in history as the leaders that gave saved our universities and started the process to give free, universal tertiary education to the people.

The roadmap has shown that a fair system of contribution must address the lack of investment coming from private business, which makes significant gains from the skills generated by higher education.

It is a myth that funding free education would somehow involve the bin-man paying for the barrister has been thoroughly dispelled. Whilst all citizens benefit from a well-educated society, and should invest in tertiary education as a public asset like they do schools or the NHS, those who benefit financially from higher education still contribute more through the tax system.

We have shown that free education is affordable: it would take only nominal increases in taxes on business and the wealthiest to pay for it, and considerable savings would be made from scrapping fee loans.

Free education would also be a major boost to the economy, as graduates would have more disposable income from having no loan repayments.

We have taken into consideration the importance of institutional autonomy, and believe that a publicly-funded system provided through an independent trust, with elements of regional and local funding, and the maintenance of other separate streams of funding for research, and for postgraduate and overseas students can ensure that universities continue to have freedom over their budgets, but within structures of democratic accountability.

Ultimately, the new funding regime must be coupled with a radical rethink of the way we provide tertiary education, with a thorough review of undergraduate provision and the inclusion of new vocational and technical educational pathways across further and higher education.

We hope that this roadmap provides the start of a real debate about the future of education, not another Browne Review. Education is a public asset, a wealth creator, an aspiration builder and a society builder. It deserves the respect of a real debate around public funding and public accountability, where we work together to find the right route towards free universal tertiary education.

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