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PRACTICAL POLICIES FOR THE REDISTRIBUTION
OF WEALTH, POWER AND OPPORTUNITY

HIGHER EDUCATION AND SOCIAL JUSTICE

A briefing on the government's proposals
for reforming student finance

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Executive Summary

1. Introduction

The government's proposed reforms to student finance raise a number of important issues. This briefing focuses on the question of equality of access and the position of poorer students.

2. Defining social justice

The government is committed to the principle that students of whatever social background should have an equal opportunity to participate in and benefit from higher education.

3. Higher education and social class

The government may be downplaying the extent to which financial constraints currently deter poorer students from entering higher education. It is certainly the case that such constraints compromise their choice of course and university and their educational experience.

4. The 1998 reforms

No systematic assessment has been made of the impact of tuition fees and the abolition of the maintenance grant on participation and completion rates. But survey evidence shows that poorer students have had to borrow more and take on more paid work than their better-off counterparts.

5. The government's new proposals

Under the new proposals a small grant will be restored for poorer students, and bursaries may be enhanced. But they face extra debt if they wish to attend universities charging higher tuition fees.

6. Fear of debt

There is a danger of underestimating the psychological and financial barriers faced by young people from poorer families. There is clear evidence that they are more averse to taking on debt and that this is a deterrent to undertaking higher education.

7. Variable tuition fees

Against this background the introduction of variable tuition fees risks exacerbating inequality and entrenching a polarisation of the sector as poorer students opt for cheaper courses.

8. Maintenance and living expenses

The level of the new Higher Education Grant bears no relation to the level of need of the poorest students. Even those receiving it as well as the full student loan would face a gap between their income and expenditure.

9. University bursaries

University bursaries may help but will be discretionary and potentially arbitrary, and so an inadequate replacement for a transparent and uniform system of student support.

10. Experiences overseas

In the US participation in higher education is closely related to family income and sensitive to changes in the levels of cost and available support. There is no conclusive evidence about the impact of recent reforms on the class composition of Australian universities.

11. Conclusion

Clearly the government proposals do not offer sufficient support for poorer students, and may have the effect of raising new funds for the sector by pricing them out of the more prestigious institutions.

1. Introduction

This briefing is intended to help inform and clarify the debate over the government's proposed reforms of Higher Education funding as set out in the White Paper of January 2003 and due to be contained in a Higher Education Bill as announced in the Queen's Speech of November 2003.

The reform of higher education funding raises a number of important and complex issues, not all of which are covered in depth here. But the fundamental concern which has animated much of the debate is over the possible impact of any reforms on equality of access and the position of students from poorer backgrounds. It is on this question that this briefing concentrates.

2. Defining social justice

Restructuring the funding of higher education raises important questions about social justice: what is the fairest method of distributing the costs of higher education?

The Labour government, as a social democratic one, answers these questions by affirming that social justice in this context requires equality of opportunity. In particular, social democrats advocate what the political philosopher John Rawls has called "fair equality of opportunity": the creation of a society where individuals with similar abilities have the same chance of receiving an education and pursuing a career regardless of the social class they are born into (1).

In the present context this means ensuring that social background does not affect individuals' ability to enter and make the most of higher education. Any proposal to redistribute the costs of Higher Education, however desirable on other grounds, must be assessed in the light of its impact upon this fundamental principle of social justice. As the government put it in their White Paper:

"Education must be a force for opportunity and social justice, not for the entrenchment of privilege. We must make certain that the opportunities that higher education brings are available to all those who have the potential to benefit from them, regardless of their background." (2)

Indeed, Higher Education is central to the government's wider social justice strategy, since "education is the best and most reliable route out of poverty and disadvantage" (3). Widening access to universities is therefore a key tool in improving the life chances of the least well off.

The most important question to ask of the government's proposed reforms, then, is whether they are consistent with this commitment to equal opportunity. This breaks down into three simple questions:

- 1 Will the reforms make it more difficult for academically qualified, poorer students from entering higher education?
- 2 Will the reforms make it more difficult for poorer students to attend the universities and taking the courses to which they are best suited?
- 3 Will the reforms make poorer students more likely to drop-out, or to take on too much paid work, or in other ways make it impossible for them to realise their potential at university?

The following pages attempt to summarise and assess the evidence that is available to help us answer these questions.

3. Class participation in higher education

Participation in higher education in Britain is highly unequal across social classes. In 2000, 48 per cent of young people with middle and upper class parents were attending university, compared to only 18 per cent of those from poorer backgrounds. This gap has widened since 1990.

As the government points out, **the most important factor behind unequal participation in higher education is differential academic attainment at age 18**. For a multitude of reasons, individuals from poorer families are much less likely to get two or more A-levels by the age of 18 (4).

However, this does not mean that differential academic attainment at age 18 is the *only* factor explaining unequal participation in higher education. The government has suggested that once academic attainment is controlled for, participation in higher education is “fairly even over all social classes”, with 9 out of 10 of all students with 2 or more A-levels going to university (5).

But this statistic may present an incomplete picture and needs to be considered alongside other evidence:

- The Dearing Inquiry found that of all young people with two or more A-levels, 77 per cent from the wealthiest social classes went on to university, 59 per cent from the middle classes and only 47 per cent from the most disadvantaged backgrounds (6). This “three-class” analysis may reveal inequalities that the government statistic (based on a “two-class” manual/non-manual distinction) does not capture.
- A National Audit Office study similarly found that qualified young people from poorer social classes were 14 per cent less likely to attend university than those from other social groups, concluding: “The main cause of low participation by qualified people from groups with low representation is that small proportions apply.” (7)
- There are large social class differences in participation given GCSE attainment – for example, of young people attaining 8 or more GCSE passes at A*-C, only 73 per cent from lower social classes go on to university, compared to 87 per cent from higher social classes (8). A-level results may be the wrong point at which to control for academic attainment, since university entry is arguably their main function – for this reason deterred poorer students may put less effort into them or indeed elect not to take them.
- Evidence from the United States also shows that rates of participation in higher education rise with family income, even once academic ability has been controlled for (9).

These considerations suggest that **financial disincentives may be a bigger factor affecting rates of participation in higher education than the government has allowed for**.

As well as attending to rates of participation in higher education *per se*, a concern for equality of opportunity also means that we must attend to the ability of students to choose and make the most of the course for which they are best suited. As overall participation in higher education expands, social inequalities *within* the system increasingly become just as important as inequalities between those who are inside and those who are excluded.

Here there is little disagreement:

- The government says that students from poorer classes are less likely to apply to the most prestigious universities, despite having the necessary qualifications to be admitted (10).
- Financial constraints mean that students from low income backgrounds increasingly opt to stay at home when studying (11). As the government recognises, living at home significantly impoverishes the nature of the university experience, and deprives many young people of the chance to attend the university best suited to their talents.
- It has been shown that the average distance between a student's home and the higher education institution they attend correlates to their social class, with students from poorer families travelling the shortest distance to university (12).

In short, **students from disadvantaged backgrounds undertake shorter, more vocational courses at less prestigious institutions closer to their parental home.**

There is also clear evidence that the **financial pressures faced by poorer students compromise their studies and educational experience.**

- Increased paid work during term-time significantly depresses academic attainment. For instance, a student working 16 hours a week has between a 10 and 60 per cent relative chance of getting a poorer degree than a similar non-working student (13).
- Those who rely most on income from paid work, and who work the longest hours, come from the poorest families (14).

These factors may partially explain the fact that there is a differential return from going to university for different social classes. It is often pointed out that overall graduates earn 50 per cent more than non-graduates, but this average figure conceals the fact that students from social classes IV and V will earn on average 7 per cent less than graduates from social classes I and II (15).

4. The 1998 reforms

The basic structure of the student funding today was put in place in 1998, as part of the government's response to the Committee of Inquiry into Higher Education chaired by Lord Dearing.

The Committee had recommended the introduction of a flat rate "top-up" tuition fee payable by all, coupled with a means-tested maintenance grant. This was on the grounds that without maintenance grants poorer students would find the level of debt required to pursue Higher Education a severe disincentive, and those that did apply would inevitably acquire considerably larger debts than wealthier students who could rely on financial support from their families (16).

For reasons that remained unclear the Labour government effectively reversed these proposals and instead installed:

- flat rate university tuition fees, currently £1,125 per year

- full exemption from fees for students from families on incomes of less than £20,970, and partial exemptions for students whose family income is less than £31,231
- complete abolition of the means-tested maintenance grant
- an expanded system of income-contingent loans for students living away from home – currently standing at £4,000 a year (or £4,930 in London) if their annual family income is below £31,231; or up to £3,000 (£3,698 in London) if it is greater.
- reduction of the income level at which student loans become repayable to £10,000, previously pegged at 85 per cent of national average earnings (£17,784 in 1998/99)

The effect of these measures on the social composition of the student population is unknown – no systematic assessment has been made of the impact of tuition fees and the abolition of the maintenance grant on participation and completion rates in British universities.

However, research commissioned by the DfES has produced some important evidence about the impact of student funding reform on student income and expenditure.

As one would expect, student debt has increased – the debts of those graduating in 2003 are two and a half times more than those who graduated in 1998. But, importantly, this debt is extremely unequally distributed between social classes. In 2002/3, students whose parents' annual income was less than £20,480 owed an average of £9,708, with half owing over £10,392. Students with parental incomes over £30,502 owed just £6,806. In effect, poorer students were 43 per cent more in debt than their richer counterparts (17).

Also as one would expect, students took on more paid work. 58 per cent of students worked in term-time in 2002/3, an increase from 47 per cent in 1998/9. On average, they work 14 hours a week, earning an average of £5.07 per hour. But again this is unevenly distributed between classes: those who rely most on income from paid work, and who work the longest hours, come from the poorest families (18).

This shows that under the current system **students from poorer families are contributing far more to the costs of their education, by borrowing more and taking on more term-time work, than those from more privileged backgrounds.** Meanwhile students from wealthy backgrounds now receive around twice as much money from their parents as poorer students (19).

5. The government's new proposals

The government's main proposals on student financial support are as follows:

- All tuition fees will now be payable after graduation through income-contingent loans.
- Universities will be able to vary the level of tuition fees up to a maximum of £3,000 a year for any course. The money raised through variable fees will go directly to the University.

- The first £1,125 of tuition fees will continue to be means-tested as before (this figure will rise with inflation)
- A means-tested Higher Education Grant of £1,000 a year will be introduced for students from households with incomes of £15,201 or less; partial grants will be available to students from households with incomes of up to £21,185.
- The level of the student loan will remain unchanged but the repayment threshold will be raised from £10,000 to £15,000.

The government defines the worst off students as those from families with an annual income of roughly less than £20,000. The government estimates that these would comprise around 30 per cent of all students. These students will receive

- help with fees: remission of the first £1,125, and income-contingent loans to cover fees above £1,125
- help with living expenses: a Higher Education Grant of up to £1,000, and a student loan for maintenance costs of £4,000 (plus London-weighting)
- any bursaries or fee remissions the university may be operating which they may qualify for

In the government's view, "these measures will help ensure that, in future, everyone who has the ability to participate in higher education is able to do so" (20). How confident can we feel about this claim?

6. Fear of debt

A crucial factor in any consideration of social equality and student finances is the extent to which different social groups exhibit different degrees of debt aversion.

Labour MPs Peter Bradley and Alan Whitehead have written of what they call "the myth of debt adversity" (21), arguing that students recognise that such debts represent an important investment in their futures. But the important question here is not how students in the aggregate regard debt, but how students from different social backgrounds respond to it. As they note, "there is important evidence students from lower income backgrounds tend to be more concerned about debt than others and that over half of non-entrants cite debt as a disincentive to university application" (22).

Survey research has indeed systematically demonstrated that **young people from poor families are more afraid of taking on debt than those from higher income groups, and that debt aversion is the key reason for otherwise qualified individuals deciding not to undertake higher education.**

- Those who are debt averse are four times more likely not to go to university than those with a more relaxed attitude to debt.
- Fear of debt puts off prospective students from low-income backgrounds more than it does for those from wealthier families (23).

There is a danger that the government and policy analysts have been overly sanguine about this issue and underestimate the psychological and financial barriers faced by young people from poorer families.

The Institute for Fiscal Studies, for example, simply asserts:

“Whether or not students, especially those from poorer backgrounds, are deterred as a result of increased fees will depend on how successful the government is in explaining to young people the nature of the investment that Higher Education represents and the mechanics of the income contingent loan system” (24)

But it does not seem plausible to imagine that a few months or even years of government persuasion will be able to induce a dramatic shift. Working class debt aversion is a fact that needs to be taken seriously by policy-makers and not wished away. Policy analysis that regards participation in higher education as simply a rational economic choice has not adequately taken account of this research which shows that attitudes to indebtedness are complex and deeply ingrained.

Furthermore it is unhelpful in this context to view such debt aversion as simply economically irrational.

- Attitudes to financial risk are inevitably shaped by the level of economic security and family support enjoyed by the individual. Young people from low-income families will necessarily be cautious about taking on a personal debt that exceed their parents’ annual income.
- They will also be aware that they will face considerable financial hardship while undertaking their degrees, and may be forced to take paid term-time work to support themselves. They will rightly think that taking such work would affect their chances of completing their degree successfully (see section 3 above).
- Young people from low-income families will also worry that even if they do successfully complete their degree, they will find it difficult to secure a high paying job that will enable them to repay their loans quickly, and indeed they will find this more difficult than their more socially advantaged peers (see section 3 above).

7. Tuition fees

Against this background the introduction of variable tuition fees of up to £3,000 a year is fraught with dangers. Low-income students who want to attend a prestigious institution charging the full £3,000 will receive remission only up to £1,125 and will be expected to borrow an additional £1,875 each year, increasing their total debt by roughly £5,625.

In the government briefing issued to MPs in support of the White Paper, differential fees are justified on the grounds that they will give universities “the *flexibility* to respond to changes in demand” (25). Similarly, the White Paper states that differential fees “will make student choice a much more powerful force, and help choice drive quality” (26).

These statements propose that higher education should operate as a market, with variable pricing enabling institutions to boost demand for certain courses by making them cheaper, and sought-after courses charging an extra premium. So the assumption is that variable pricing *will* alter patterns of demand for certain courses. In which case, it should be asked: which social groups will decide to pursue the cheaper courses, and which will decide to pursue the more expensive ones?

The celebration of student choice also ignores its inadequate realisation: financial constraints have long prevented many students from exercising anything like a free choice of course and university. The government has criticised the Liberal Democrats on the grounds that under their alternative scheme “going away from home to study would not be an option for the majority of students. For the many, the chance to study at the best universities would become a lottery based on the location of their parental home” (27). In fact, such a lottery already exists, and there is no reason to believe that it will not be worsened by the government’s proposals.

Competition between institutions on price is likely to exacerbate this existing inequality of opportunity between students. Increased polarisation could lead to a clear division between poorly resourced universities mostly attended by students from low-income backgrounds and richer institutions with an intake drawn from higher income families. In this event, it is hard to see differential fees as anything but the driver of a poor quality education for many students.

8. Maintenance and living expenses

The reintroduction of maintenance grants is enormously important. But it is unclear why the government chose to set the grant at £1,000, a figure which bears no relation to the level of need of the poorest students. **It is doubtful whether the grant has been set at a sufficiently high level to alter the basic failings of the current student support system.**

It is worth contrasting this level of support with the cost of student living expenses.

- The National Union of Students estimates that the cost of living for a first year student living away from home is £6,200 (excluding up front fees) (28)
- The recent DfES study found average annual student expenditure in 2002/3 to be £6,897 (29)

This suggests that even those students who receive the full package of loans plus the new grant will face a gap between their expenditure and their income. It is therefore unlikely that it will be sufficient to alter the debt aversion of low-income students when balanced against potential debts of over £20,000 for a three year course.

The grant may enable students to reduce the amount of paid work they undertake during term-time, but it will be insufficient to stop them working completely, since the average income from paid employment is now over £1,000. £1,000 will also be insufficient to finance the extra costs of living away from home for those students who would like to choose to do so.

Equality of opportunity would require that students who cannot call on support from their families should be offered enough financial security to ensure that their studies are not compromised. As

Bradley and Whitehead suggest, to really achieve this the government would need to “restore a realistic, targeted maintenance allowance” (30).

9. Bursary schemes

The government has hinted that university bursary schemes will be a compulsory element of their student support package, although there are as yet no details on how this might work.

While institutional financial aid would clearly be better than nothing, it introduces a discretionary and potentially arbitrary element into the distribution of student financial support. This seems to be the option most favoured by the wealthiest universities. In a recent letter to *The Times*, the heads of some of Britain’s most prestigious universities declared that bursaries “should be a matter for the universities to manage, and not for the government to impose” (31).

But this is precisely what should not happen. **Leaving such schemes as autonomous decisions for individual universities removes transparency from student support mechanisms, and moves from a uniform system of financial support to one that is bound to create inequalities between the positions of similar students with similar financial needs at different universities.**

Cambridge University has already announced that it intends to use its income from top up fees to fund bursaries of up to £4,000 per year (32). While this would be excellent news for some students at Cambridge, it is not likely that all institutions will be able to offer this level of financial support.

Student support is mostly allocated on an institutional basis in the United States, and the evidence there suggests that such a decentralised system does not distribute funds according to financial need. Institutions compete for the highest-achieving students by providing ever more generous packages of financial aid, while reducing support to slightly lower-achieving but more needy students (33). Most scholarships in the US are in fact awarded to middle and upper income students.

10. Experiences overseas

Other higher education systems are frequently cited in support of the government proposals, and it is worth considering whether these claims can be supported by the available evidence.

The United States

Higher education in the US provides a particularly instructive example. Since each higher education institution in the US has the freedom to set its own level of tuition fees, different institutions charge varying levels of fees.

In the US participation in higher education is clearly related to family income. Although it is often claimed for the system that 43 per cent of the bottom income quartile go into higher education (34), in itself this figure tells us very little. For consideration of the potential disincentive effects of the UK government’s proposals, the important question is the proportion of college qualified young people from low-income backgrounds deterred from higher education by its cost.

- 22 per cent of college-qualified high school graduates from low-income families do not attend any college at all, and 48 per cent do not attend a four-year college, figures that are largely attributed to the prohibitive costs of college education (35).
- The most highly qualified students from the poorest backgrounds attend college at about the same rate as the lowest qualified students from the richest backgrounds – 77 per cent and 78 per cent respectively (36).
- Qualified students from low income backgrounds are five times more likely than their richer counterparts to attend a community college (37).
- Poorer students are also more likely to drop out or to take longer to complete their degree (38).

The polarisation of the US system can be seen most clearly by examining the class composition of the most prestigious US universities. It is very difficult to get data on this issue – for some reason, US universities are not keen to report on the class composition of their student population. However, we can identify what proportion of students enrolled at a university receive a Pell Grant – the basic means-test federal bursary worth up to \$4,000 (higher than the UK government's proposed grant), which is available to students from families at or below the national median income. At top institutions such as Harvard, Princeton, Brown and Pennsylvania, fewer than one in ten of their undergraduates appear to have qualified (39).

Furthermore, it has been unequivocally shown in the US that increases in costs depress enrolment, and in particular the enrolment of low-income groups (40). While we have no definitive study of participation in British higher education from this perspective, the American research is at least extremely suggestive about what could happen in this country: higher costs will deter lower income groups from going to more expensive universities.

American evidence also shows that it is the level of grant awarded in any financial aid package that has the most significant effect on low income students' decision to undertake a university course. Grants have been shown to be a far more effective policy than loans for increasing participation rates amongst low income and other disadvantaged groups (41).

Australia

Ministers frequently cite the current Australian model as one that is similar to the government's proposals. Unlike the US, **there is no conclusive evidence about the impact of the Australian reforms on the class composition of Australian universities.** Further research would be needed before any pronouncements can be made either way.

Meanwhile, the survey evidence of student attitudes that is available indicates that young people from poorer families are more likely than those from wealthier backgrounds to believe that the cost of university fees would stop them from attending university (42).

And it is worth noting that the level of the maintenance grant currently allocated under the Australian system is far more generous than that proposed by the government, with the maximum being roughly equivalent to £3,375 a year (43).

II. Conclusion

It has been suggested by some that much of the concern over the government's proposals to reform student finance are wrongheaded, because higher education remains the preserve of the middle classes not because of exclusion at the point of university access but as a result of inequalities in the school system or support for early years. It is here then that social democrats should focus their redistributive efforts.

This might be a compelling argument if its premises were secure, but the evidence suggests that the picture is rather more complicated, and that pre-existing social and economic inequalities are compounded by the financial disincentives and difficulties that lie between poorer students and the potential benefits of higher education.

Seen in this light there is indeed reason to worry about the consequences of the government's proposals. There is clearly a substantial gap between the amount of support on offer to poorer students and the level that would really give them an equal chance of realising their academic potential, especially once their understandable wariness of taking on debts is taken seriously. The restoration of a small grant and enhancement of bursaries will clearly help their position, but clearly fall some way short of what their situation demands. And the introduction of variable tuition fees may raise new money for the sector at the cost of pricing them out of the more prestigious institutions.

There exist a range of alternative ways forward, and the choice between them turns on wider political and philosophical questions that are beyond the scope of this briefing to explore in any depth – questions concerning the social value and economic role of higher education, its proper structure and organisation, and the extent to which its costs ought to be born individually or collectively.

But the one principle that is shared by all participants in the debate and, we believe, the vast majority of the British public, is that access to higher education should be fair. On this count the current proposals are clearly wanting.

Catalyst is an independent think tank of the left, dedicated to promoting practical policies for the redistribution of wealth, power and opportunity. Tel 020 7733 2111; www.catalystforum.org.uk

This briefing is a collective work of Catalyst researchers and advisors, aimed to help to clarify and inform the debate. It should not be taken as a complete or final statement of the views of any particular individual or individuals.

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