MAKE EDUCATION COUNT

IN PLACE OF FEES: TIME FOR A BUSINESS EDUCATION TAX?

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DIRECTION FOR THE DEMOCRATIC LEFT

FOREWORD

by **Sally Hunt**,

UCU general secretary

I believe that access to higher education is a central driver of social and economic fairness. Making it achievable and affordable for all who would benefit is a policy challenge any civilised society must meet. Yet the direction of policy in recent decades has been to make the cost of going to university more expensive, not less.

UCU proposes that tuition fees should be abolished. Rather than charge students for their education, we would charge large employers who benefit from the plentiful supply of graduates through a new Business Education Tax (BET). This innovative, practical and radical approach produces more money for higher education than the current tuition fee scheme, and costs less to administer.

Best of all, it removes one of the barriers to social and economic justice that stand in the way of our country. The right to an education is something we hold in trust for the next generation. All those who have the ability to benefit from university should have the right to attend, and no one should be excluded on the grounds of cost.

FOREWORD

by **Neal Lawson**,

Chair of Compass

University used to be essentially free. As places have increased, the quality of the UK labour force should have increased with it. More people doing better jobs, being paid more money should be able to fund the cost of HE expansion. But the system is under huge financial strain. Government funding has shrunk and in its place we have the worst domestic policy decision of the last thirteen years—variable tuition fees.

This is a big claim given other decisions such as the abolition of the 10p tax rate but is justifiable on the basis that the implicit goal of VTFs was the creation of a market in higher education. Better institutions would eventually charge more and just like buying jewellery or a car, the individual consumer can decide best how to maximise their utility. University would compete with university and students would be conditioned to a life of debt and pick courses that led to the highest paid jobs. The decision marked the triumph of the needs of the market over those of society. Those not used to debt or without parental support would be left behind.

Compass wants to see a debate flourish about alternatives to VTF as the government parks the issue for the election with its review that everyone expects will recommend a lifting of the fee's ceiling, thus making the situation worse not better. This timely report comes up with one way of filling the funding gap just when public money is at its tightest. If it is businesses that benefit from the growth in supply of graduates then it is businesses that should pay for HE expansion. The case here is well made by UCU.

WHY HIGHER EDUCATION MATTERS

UK universities are globally recognised. With four institutions in the world top-ten[1], the UK has a deservedly high reputation for the quality and diversity of our teaching and research[2]. Our universities are the world's second-most popular destination for international students, generating billions of pounds for our economy.[3]

Taken together UK universities contribute an estimated £59 billion[4] annually to the economy each year from a public investment of around £10 billion.[5] This includes:

- 668,000 jobs created either directly or indirectly
- £19.5 billion of spending in local economies
- £2.3 billion of off campus spending by overseas students
- £23.4 billion of consultancy work, intellectual property income or hosting conferences.

Our universities achieve this despite receiving less public investment as a proportion of GDP than other countries; spending 20% less of its gross domestic product (GDP) on universities than France, 10% less than the US, and 10% less than the global average. To catch up with the Organisation for Economic Co-operation and Development (OECD) average the UK would need to spend an additional £1.4 billion of public funds on higher education.[6]

Yet Britain's place in the global knowledge economy rests on the quality of our education infrastructure. The prime minister has said that an extra seven million professional jobs will be required in this country by 2020. It is UK universities and colleges that will be educating and training people to fill these jobs.[7]

Access to higher education benefits society in other less tangible ways too. As a study completed by the Institute of Education for the Higher Education Funding Council for England (HEFCE) in 2003 concluded.[8]

> **Graduates also cost the community less. They are less likely to require social security benefits to see them through periods of unemployment, because their high employability relative to other groups makes it less likely that they will be unemployed. Their generally higher levels of health and healthier life style mean they are likely to place less burden on the National Health Service. They also contribute to social cohesion through the values they hold and the voluntary and community activity that they undertake. They provide these benefits not only directly, but also indirectly through the transmission of their own educational capital to their children.**

Higher education is central to social and economic justice too, providing the mechanism through which generational outcomes can be improved. Yet despite progress in the last two decades, participation by those from underprivileged backgrounds continues to be much lower than for others. The Government Equalities Office report, *Anatomy of Economic Inequality*, published in January 2010 showed for example that just 13% of children in receipt of free school meals at age 15 go on to attend university compared to 33% of those not in receipt.[9]

WHAT DO STUDENTS PAY TO GO TO UNIVERSITY?

The Scottish Parliament scrapped up-front tuition fees for Scottish students at Scottish universities in 2001, and seven years later abolished the graduate endowment fund paid by students in lieu of a fee. In England and Northern Ireland, and for non-Welsh students in Wales, full-time undergraduates are liable to pay variable tuition fees of up to £3,225 a year (2009-10 rates). The poorest students are eligible for non-repayable support at up to the same amount. The English system works like this:

- Families earning below £25,000 are eligible for a grant of £2,906 a year, which tapers away to nought on family incomes of £50,020.
- Universities charging maximum fees have to fund bursaries of at least £310 for the poorest students.
- Unlike previous tuition fees, students no longer have to pay 'up front'—while at university—unless they want to.
- Instead, fees are covered by a loan, repayable by graduates once their annual income passes £15,000 (repayments are a minimum of 9% of all earnings over that figure per year).

This system raises money directly for universities. In 2009, David Lammy, the minister for higher education, claimed that 'such fees generate an income of around £3 billion annually for higher education institutions'. Universities UK in their analysis of future scenarios for variable tuition fees[10] estimated that the current system would by 2014 produce annual revenue of £3.2 billion for English universities.

In 2007/08 total income for UK universities was £23 billion[11], so the contribution currently made by tuition fees is around 14% of the total.

WHAT IS WRONG WITH THE SYSTEM?

There are six main problems with tuition fees: they are expensive to maintain; they increase student debt; they act as a disincentive to study; they reflect an oversimplification of the economic benefits of having a degree; they create real individual hardship while raising relatively small sums of money; and they are unpopular with voters.

The CBI estimate that 'every pound loaned costs the Treasury around 33p[12], as a result of the interest rate subsidy and students defaulting on loans'[13]. To put this in context, in 2008/09 tuition fee loans amounted to just over £2 billion, leaving government with a bill of around £650 milion to service that debt.

The Student Income and Expenditure Survey (SIES) 2007/08 showed that graduates at the end of their first year of study, in that year faced average net debt at year end of £3,518, compared with £2,415 for first years in 2004/05.

Fear of debt also acts as a disincentive to study, particularly for those from under-represented parts of the community. The SIES 2007/08 reported that 25% of full-time and 31% of part-time students said that concerns over debt nearly stopped them coming to university.[14]

The Futuretrack survey confirms this through analysis of those who applied for but did not enter higher education and have no immediate plans to do so. The most frequently cited reason was 'put off by the costs' (39% of applicants who did not enter higher education), followed by 'put off by the prospect of incurring debts'.[15]

IS THERE AN ALTERNATIVE TO TUITION FEES?

The system is built on the premise that the lifetime earnings premium from having a degree operates in a largely homogenous way. In fact there are stark differences by both subject and social background. A medicine degree yields on average nearly ten times the extra lifetime earnings of an arts degree, with the premium provided by the latter making a decision to study based on purely financial terms marginal.

The difference is equally stark when social background is considered. Graduates educated at private schools are nearly three times as likely as those from state schools to be earning more than £30,000 once they leave university.[16]

As the CBI has pointed out, increasing fees to £5,000 would raise just an extra £1.25 billion, not even enough to bridge the gap between the UK and our OECD competitors, let alone make up for the cumulative cuts in the higher education budget of £900 million announced by Peter Mandelson in late 2009. In crude terms, and taking into account the latest government cuts, tuition fees would need to rise to nearly £7,000 in order to close the funding gap between the UK and other countries.[17]

There is, in any case, little public support for an increase in the contribution made by students. A 2009 Compass/NUS poll found just 12% wanted to increase student fees compared to more than four times that amount who wanted to see fees abolished. A UCU poll found that 62% of all voters, and 64% of Labour voters, did not support any increase in student fees.

The National Union of Students (NUS) has come up with a bold and innovative proposal to abolish tuition fees and create a graduate tax which would be levied only once an individual earns over a threshold of £15,000, with payments spread out and therefore more affordable.[19] Students' monthly payments would typically be less than under tuition fees although they would on average pay them for longer.

However one problem with a learning tax of this kind is that it de-incentivises participation by substantially increasing the marginal tax rates of graduates. The NUS proposal, for example, would mean that a graduate with 360 credits earning £30,000 a year would pay a £76 monthly contribution to graduate tax, equivalent to £912 a year.

This is a 19.4% increase on the basic rate of tax of £4,705 compared to someone without a degree who is earning the same amount.[20]

As the CBI rightly points out, establishing a plentiful supply of high quality graduates is key to the UK's economic prosperity: 'demand for graduates has grown and will continue to do so—over the last 15 years the proportion of jobs requiring a degree-level qualification has risen from 23 to over 30%, with the number of jobs requiring few or no qualifications falling from 60 to under 40%'.[21]

SHOULD EMPLOYERS PAY MORE?

Historically, UK industry has been poor at investing in learning at all levels, even though as the Dearing Report noted it is a key beneficiary of public education. In response to this the government introduced Train to Gain, whereby public funding was used to initiate workplace learning partnerships between colleges and the private sector. UK corporations are similarly reluctant to fund universities, contributing just 4.8% of total university research and development expenditure compared to an EU average of 6.5% and an OECD average of 6.1%.[22]

The failure to invest sufficiently in education, training and research by the private sector is despite a highly beneficial tax regime which is, according to the Institute of Fiscal Studies (IFS), lower than other G7 countries and many of our European partners[23] (see table below).

Combined corporate income tax rate (%): G7 2009[24]

Japan	39.54
United States	39.10
France	34.43
Canada	31.32
Germany	30.18
United Kingdom	**28.00**
Italy	27.5
G7 average	32.87

Even at these low levels of taxation, the Treasury estimate that some £8 billion of owed corporation tax is uncollected per annum due to inefficient collection practices and small levels of evasion.[25] High profile cases such as Google show both the reliance of the corporate sector on higher education and its unwillingness to pay up to fund it. Google recruits 300 UK graduates from UK universities and generates an estimated £1.6 billion a year in advertising revenue in this country, yet pays no tax in the UK at all. The *Sunday Times* estimated that Google avoided £450 million in UK corporation tax in 2008 alone by diverting its advertising earnings from customers in Britain to an Irish subsidiary.[26]

THE BUSINESS EDUCATION TAX (BET): UCU'S PROPOSAL

UCU believes that while employers benefit enormously from the plentiful supply of graduates, they will not willingly contribute to the infrastructure that creates this supply. Further, with corporate taxation levels lower in the UK than in other comparable economies and a collection shortfall of £8 billion a year, we believe scope exists for a modest increase in their tax burden in order to directly support higher education.

This is not a matter of ideology. We have noted in other areas of the public realm that business levies can be used to overcome the private sector's unwillingness to pay for services that benefit them. The most striking recent example is that set by London Mayor Boris Johnson who is levying a business tax of 2p in the pound to raise £4.1 billion to help fund the Crossrail project.

A 1p increase in main rate corporation tax would (at current levels) raise around £800 million a year according to the IFS.[27] Increasing it to the G7 average of 32.87p and hypothecating the extra revenue would therefore generate almost £3.9 billion for higher education—more than enough to abolish all tuition fees. This move would still leave the UK's main rate corporation tax rate below France, United States and Japan, and would leave unchanged at 21% the small companies' rate.

UCU would favour tax breaks on the BET for companies who fund their employees to return to education to learn new skills, creating a virtuous cycle of positive practice encouraged by an activist state.

UCU also believes that proactive steps to close the £8 billion tax gap between what corporations should and do pay are required. To address the need to close the gap between what the UK spends on higher education compared to other countries we believe that as collection is improved a fund should be set aside for education. Improving collection from companies to just 10% of the underpaid amount would yield an extra £800 million a year—enough to fund up to 100,000 students.

UCU believes that a Business Education Tax would enable the UK to:

- make access to higher education free
- reduce student debt and re-incentivise participation
- reduce the cost to taxpayers of servicing student loans
- increase the amount available for universities to invest
- increase the engagement of the corporate sector with higher education
- promote 'return to learning' schemes in the private sector in return for tax breaks
- guarantee the plentiful supply of graduates our economy requires
- help bridge the gap between UK investment and that of our competitors
- leave the UK with a competitive corporate tax structure and protect small businesses from a tax increase
- provide a powerful incentive for government to collect all unpaid corporation tax.

References

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For more about the Make Education Count campaign,
see ***www.makeeducationcount.org.uk***

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