

**A graduate tax fifty years on: a solution looking for a different problem?**

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# A graduate tax fifty years on: a solution looking for a different problem?

Colin McCaig

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*Howard Glennerster, Stephen Merrett and Gail Wilson – social welfare economists at the London School of Economics at the time – summarised the debates about a graduate tax system to fund UK higher education in our first ever edition. In many ways the ‘classic’ type of ‘problem-solving’ HER article, ‘A Graduate Tax’ identified a clear current policy problem and deployed thoughtful and informed analysis of key issues that would need consideration if such a policy solution were to be implemented. This Editorial Commentary seeks to both celebrate the authors’ (literally) timeless work and critically evaluate the prospects of a graduate tax in England, in the context of what has long been considered among the most highly marketised of national HE systems (Huisman, Meek and Wood, 2007; Marginson, 2013).*

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## **A graduate tax: the debate**

Fifty years on, the authors have all gone on to have influential careers across various academic public policy fields; indeed Glennerster and Wilson remain Emeritus at the LSE; similarly, the idea of a graduate tax has never gone away. While the debates about a graduate tax remain, the wider context has changed in almost every aspect and it is important to both revisit their work on its own terms as well as investigating the prospects for a graduate tax solution to the ongoing problem of HE financing today.

Glennerster *et al.* laid out the case for a graduate case on the following bases:

1. Post-Robbins expansion would soon make the system unaffordable; the non-university attending masses should have a way of recovering their costs
2. A tax on graduates would ‘ease the constraints on the system’ because increasing revenues would finance more expansion

3. Efficiency – assuming all students receive non means-tested grants for maintenance it removes blockages to access for the working class – as the authors put it ‘Income is provided when it is needed, and repayment made when it can be afforded’ (p27)
4. It would increase university autonomy – although that would depend on the Treasury passing on the revenue to the universities

The paper considered some of the arguments against – the most powerful of which – and one that applies to the current deferred repayment system – is that if the tax was set too high it might lead to increased emigration to avoid repayment.

Much of the paper is devoted to modelling the optimum level of such a tax and while the current author is not competent to comment on these calculations, it is revealing to note some of the prior assumptions employed because they are relevant to contemporary debates. One is that a graduate tax would remove any dependency link to parental income (again on the assumption of non means-tested grants). Another emerges during the discussion about the correct level of repayments when it is noted that economists of the time had ‘virtually no information relating educational qualifications to earnings’ (p31). A third is revealed during the discussion about the most appropriate taxation rate when a ‘drop-out’ rate of 14 per cent is discussed as a norm. This latter assumption should be essential reading for contemporary policymakers of the ‘more = worse’ tendency who equate high drop-out with working class and ‘non-traditional’ participation and who regularly angst about completion rates below 90 per cent, yet it was blithely accepted among the much narrower social class range of students attending the universities of 1968. One further consideration that Glennerster *et al.* brought to our attention is that the immediate effect of a graduate tax would be to increase – rather than reduce – public expenditure; again this is predicated on the idea that non means-tested maintenance grants would be awarded to all students, in effect a (repayable) support bursary for students.

The length of time it would take for graduate tax revenue to sufficiently support the system would, of course, depend on the level of repayment. For Glennerster *et al.*, this level of knowledge would await the kind of link between individual qualifications’ return on investment and course costs that the government is currently developing in the form of Longitudinal Educational Outcomes (LEO) in an effort to add more detail to the crude estimates derived from the Destination of Leavers from Higher Education (DLHE) surveys of graduates. But of course, these instruments have been developed and refined for quite other purposes than identifying an appropriate tax rate, given the edifice of a

marketised system predicated on differentiated variable tuition fees developed over the last fifteen years in England.

Glennerster et al also considered the question of whether graduates should cease to pay the graduate tax once they had repaid the cost of their own higher education (p35) and if so how to administer a system which would, again, only be possible with LEO type data inconceivable to the 1968 imaginary: 'Would the incidence of tax have to vary for every course in every institution in every year?' they ask, also speculating how such a system would account for the varying familial responsibilities and income trajectories of individual graduates (p35). Having considered all the attendant difficulties, Glennerster and his co-authors believed a graduate tax to be workable if supported by other changes to the taxation and public spending system. In their final analysis it was deemed fair that the tax would 'only fall on those who increased their earning power by entering higher education' (p36), but the progressive or redistributive benefits could be subverted by the wealthy if they were allowed to repay the costs in full on graduation, thus disincentivising those that could not afford this option. At base, they noted, the adoption of a graduate tax would represent a shift of the burden of tax 'towards earners as opposed to the owners of wealth' (p36) a central tenet of what has since come to be described as the 'neoliberal turn' (Lynch 2006; Sellar 2013; Savage 2013).

While the idea of a graduate tax was never adopted by government (or more pertinently, encouraged by the universities), it is an idea that has found support across the political spectrum since the introduction of partial tuition fees (in 1998), variable tuition fees (in 2004, designed to encourage a differentiated market among institutions) and again since the imposition of full cost fees in 2010. In 2009 the National Union of Students proposed such a system, as did David Willetts Minister of State for Universities and Science at the time of the publication of the Browne Review of Higher Education Funding and Student Finance (Browne 2010), his Secretary of State Vince Cable (Cable 2010) and several prominent Labour politicians, albeit mostly when in Opposition. In the event the idea was dropped due to the problems highlighted by Glennerster *et al.*; the difficulties of avoiding potential overpayment by graduates that went on to earn the highest incomes (Barr 2012), and the impossibility of collecting taxes from graduates that emigrated, or indeed of collecting repayments from EU students eligible for fee loans. The complex income contingent deferred repayment system that government did subsequently adopt (BIS 2011) has often been seen as 'virtually' a graduate tax, albeit not 'in-name'. In more recent years the idea has been resurrected by the free market Adam Smith Institute in

2017 and former Secretary of State for Education Justine Greening in 2018.

### **A graduate tax: a solution to a different problem**

As ever, the arguments for and against are rehearsed largely in the same terms as Glennerster and colleagues fifty years ago; meanwhile the entire edifice of the English marketised system as developed by successive governments seriously shifts the parameters of the debate, and thus the prospects of such a reform. On one level the perceived inequities of the current system, which loads up to £50,000 of fee plus maintenance loan debt on graduates (and, perversely, the most on those from the poorest backgrounds in the absence of maintenance grants) drives the search for reform of student finance; on another level, the specific version of a differentiated market that pertains in the English system relies on that same inequity to drive consumer choice.

The current HE marketplace – constructed in stages since *Students at the Heart of the System* (DBIS 2011) (which introduced the £9,000 tuition-fee regime) and consolidated by the Higher Education and Research Act (HMSO 2017) – relies almost entirely on persuading applicants that some HE institutions and some programmes of study are worth more than others; the very presence of the ‘£50,000 debt’ threat is designed to force consumers to shop around for cheaper provision. As the 2015 Green Paper put it:

Now that we are asking young people to meet more of the costs of their degrees once they are earning, we in turn must do more than ever to ensure they can make well informed choices, and that the time and money they invest in higher education is well spent. (DBIS, 2015, Foreword by Minister of State for Universities and Science, Jo Johnson MP)

Even more starkly, the following White Paper *Success as a knowledge economy* insisted that:

Competition between providers in any market incentivises them to raise their game, offering consumers a greater choice of more innovative and better quality products and services at lower cost. Higher education is no exception. (DBIS, 2016, Executive Summary, para 7)

The policy intention is thus laid bare: it is up to consumers to actuate choice so that they can reap the reward of lower fees and better quality.

Rather than seeking a fairer way of affording publically funded higher education (Glennester *et al.*'s noble cause) current policymakers are in fact wedded to creating a tuition price differential that serves two related ends (McCaig 2018). Firstly, that the fee differential between institutions should roughly match the entry requirements differential (based on UCAS tariff points\*) with only those institutions that can demand the highest UCAS points able to justify the maximum fee (now capped at £9,250), with the fees charged by institutions less able to demand higher tariff points tapering off under competitive pressure from new providers encouraged to market with fewer entry barriers (Evans 2015; 2016). Secondly, that the average tuition fee across the system is thus reduced from its current level (£8,700) to around £7,500, the figure deemed by government to make the repayment regime affordable (DBIS 2011). In this market the only motive power is that of the applicant consumer: in this framing the problem is higher than optimal average tuition fees; the solution is price quality comparison and increased supply, hence the new providers. A graduate tax, in many (illusory) ways so close to the current policy construct, would actually remove the only motive power that will differentiate institutions by price. A graduate tax may eventually be introduced, in some form or other, by some government or other, but it is not a solution to the problem set by this set of policymakers: how to create a consumer driven fee differential that separates the research elite from the rest of the sector, while at the same time reducing average tuition fees in the system.

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\* The Universities and Colleges Application System in the UK operates a comparison of various equivalent entry qualifications, producing an ordinal scale of UCAS Tariff points achieved by applicants. UCAS points, in the absence of differentiated tuition fees, act as the effective 'sticker price'.

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