

Financing Higher Education: Lessons from Economic Theory and Reform in England ^(*)

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ABSTRACT

The finance of higher education faces a clash between technological advance, driving up the demand for skills, and fiscal constraints, given competing imperatives for public spending. Paying for universities is also immensely politically sensitive. This paper sets out core lessons for financing higher education deriving from economic theory, including the desirability of loans with income-contingent repayments. Subsequent discussion includes a general strategy for OECD countries derived from the theoretical analysis, and reforms in England in 2006 which illustrate the strategy. The paper concludes with discussion of the appropriate role of government in higher education.

Keywords: higher education finance, higher education finance reforms in the UK, UK higher education system

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