Published on *Adam Smith Institute* (http://www.adamsmith.org)

The right step for university funding [1]

Written by **Sam Bowman** [2] | Wednesday 13 October 2010

The Browne review, which is published today [3], is a big step in the right direction for university tuition funding. It calls for the price controls on tuition fees to be removed, so that the cost of a degree represents the supply and demand for that course. I was on Stephen Nolan?s Radio 5 Live show on Sunday night talking about this, which you can listen to here [4].

As FA Hayek showed, prices are the market's way of communicating how much of a good is available versus how much demand for that good there is. A highly-priced good is difficult to come by, ensuring that only the people who need it most (and thus are most willing to pay for it) will get it ? this ensures a fair allocation of goods to the people who want them most. The current cap on university fees means that universities have no way of communicating the scarcity of university places to prospective students.

Courses with high demand cost the same as courses with low demand, removing this information mechanism and forcing students to rely on hearsay about the quality of courses. In a freely priced system, these high-demand courses would be more expensive and their popularity and quality would be communicated through prices. This would allow students to make an informed choice about which course is best for them and prevent the overdemand and undersupply of places that currently takes place.

The second point is that government subsidies for university education are a net transfer of wealth to university graduates from non-graduates, the latter of whom are overwhelmingly the poorest in society. By demanding that ?the government? pay for them, students are tacitly accepting a system that steals from the poor to give to the rich. It is absurd that someone earning minimum wage should pay through the tax system for someone else to study history, economics, law or medicine ? that lucky person getting the education will go on to earn far more than the person who?s had to pay for him. A free price system in education would communicate information effectively and make sure that it is the student who pays, not the poor.

blog comments powered by Disqus [6]

Source URL: http://www.adamsmith.org/blog/education/the-right-step-for-university-funding

Links:
[1] http://www.adamsmith.org/blog/education/the-right-step-for-university-funding
[2] http://www.adamsmith.org/taxonomy/term/5809
[3] http://www.guardian.co.uk/education/2010/oct/12/browne-review-universities-set-fees
[4] http://www.bbc.co.uk/iplayer/episode/b00v6cs4/Stephen_Nolan_10_10_2010/

[5] http://disqus.com/?ref_noscript
[6] http://disqus.com