

## The Costs of Widening Participation: Contradictions in New Labour's Student Funding Policies

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*Increasing and widening participation have been at the heart of New Labour's higher education initiatives since they came to power. This article argues that their 1998 reforms of student financial support were inconsistent with their commitment to widening access and fairness in educational opportunities, and their desire for higher education to contribute to greater social cohesion. The article examines this policy contradiction. It explores how the 1998 reforms came about, and the effects of the reforms. It traces briefly the development of student funding policies under the Conservatives, and under New Labour. Next, it assesses New Labour's policies and policy objectives, drawing upon the findings of a major survey on students' income and expenditure. So, it explores some of the effects and consequences, both intended and unintended, of the 1998 reforms.*

### Introduction

'We have to find a better way to combine state funding and student contributions', declared Tony Blair on 2 October 2001 at the Labour Party conference. Two days later, the government announced a review of student support arrangements. No doubt, in part, the review was prompted by the government's concern about its ability to deliver its election manifesto target of increasing participating in higher education to 50 per cent among young people (Labour Party, 2001). But, in part, it is a response to the problems arising from their first set of reforms to student financial support contained in the 1998 Teaching and Higher Education Act (Part II) and subsequent regulations.

Increasing and widening participation were positioned at the heart of New Labour's higher education initiatives in their first term of office. They appear central in their second term too. However, the introduction of tuition fees and student loans and the abolition of grants were inconsistent with New Labour's commitment to widening access and fairness in educational opportunities. Consequently, New Labour's desire for higher education to contribute to greater social cohesion was similarly undermined by these student financial support arrangements.

The main policy mechanisms used initially to fund widening participation were the 1998 reforms of student funding.<sup>1</sup> So this paper's concerns are twofold: first how these reforms came about; and, second, the effects of the reforms. The paper starts by tracing briefly the development of student funding policies under the Conservatives and under New Labour. Next, it assesses New Labour's policies and policy objectives, drawing upon the findings of a major survey on students' income and expenditure (Callender and

Kemp, 2000). So, it explores some of the effects and consequences, both intended and unintended, of the first set of policies introduced by New Labour. It examines some major policy contradictions within New Labour's higher education policies in their first term of office – contradictions they have recognized in their second term of office.

### **The development of student financial support policies**

#### *The Conservative inheritance*

Between 1962 and the late 1980s there were few significant changes in student support policies. Undergraduates' tuition fees were paid by the state and means tested maintenance grants and social security benefits covered the living costs of low-income students.

The first shift towards students and their families contributing more towards the costs of their higher education came with the introduction of mortgage-type student loans and the freezing of grants, following the 1990 Education (Student Loans) Act. The rationale behind loans was set out in the 1988 White Paper 'Top-Up Loans for Students' (Cm 520). The Conservatives rejected the idea of raising extra funds to meet the escalating cost of student support through more parental contributions or taxation: 'Many . . . taxpayers do not share the advantages that students have once they graduate.' Instead, students were to meet the increasing costs as they benefited most from university education. The government, therefore, called upon arguments about the social and economic returns of higher education to justify student loans. Their overall arguments reflected the Thatcherite ideology of rolling back the welfare state, individualism, and freedom from state intervention.

Other radical changes in higher education and funding issues led eventually to the setting up of the Committee of Inquiry into Higher Education, chaired by Lord Ron Dearing. It was to make recommendations on how 'the purposes, shape, structure, size and funding of higher education, including support for students should develop to meet national needs for the next twenty years' (NCIHE, 1997, p. 3) and was to report shortly after the 1997 general election.

#### *New Labour's vision of higher education*

New Labour's higher education agenda in their first term of office was influenced by this Conservative inheritance. Their approach to higher education, therefore, needs to be understood both as a response to policy reforms set in motion by the Conservatives, and as a desire to reshape the sector.

David Blunkett (the then Secretary of State for Education and Employment) saw higher education playing a major role in securing economic competitiveness; meeting the needs of the economy and employers; ensuring a democratic society and an educated citizenry; and securing social cohesion and social justice. He (2000, para. 66) claimed:

In a knowledge-economy, higher education becomes a potentially powerful instrument of social justice, since it serves not only as a driver of wealth creation, but as a *critical determinant of life chances*. As we expand access, and participation becomes the norm rather

than the exception, so the higher education system will increasingly underpin social justice within the community . . . rather than reinforcing social stratification (my emphasis).

Here, both economic prosperity and social inclusion were positioned as key goals of higher education policies and these were to be achieved by increasing and widening participation. Thus, New Labour's economic arguments for widening access were integrated with liberal ideas of the functions of higher education (DfEE, 1998a; 1998b) and were seen as a means of overcoming social exclusion (Naidoo and Callender, 2000). This, along with Blunkett's stress on social cohesion and justice, distinguishes New Labour's vision from those of past governments that had emphasized economic development and individual competitiveness.

#### *New Labour's student financial support policies*

New Labour announced its first set of changes to student support arrangements on 23 July 1997, the day the Dearing Report was published. Most of these were enacted by the 1998 Teaching and Higher Education Act (Part II) and subsequent regulations. Thus New Labour rejected Dearing's main recommendations,<sup>2</sup> but it is not clear why. They had restricted their options by adopting the Conservative's public expenditure plans. New Labour were attracted to fees because they provided funds 'up-front' and by means testing them, made them politically acceptable to the student body. Their replacement of grants with loans completed a process begun by the previous Conservative administration. New Labour had unashamedly embraced this part of the Thatcherite legacy, along with arguments about the social and economic returns of higher education.

New Labour's reforms were attacked eventually. Tuition fees proved politically unacceptable to the Scottish Parliament and they were effectively abolished. Similarly, both Northern Ireland and Wales rejected Westminster's policies. This assault arising from devolution could not have been anticipated (Watson and Bowden, 2001). Issues arising from the abolition of grants could have, and many were identified in the Dearing Report. Since New Labour's first set of reforms of 1998, therefore, they have had to try to restore the principle of public funding for disadvantaged students through selective assistance (DfEE, 2000a). This has resulted in a complex, confusing, and bureaucratic system of support with means testing and an array of national and institutional support packages – all of which have proved embarrassing politically.

On 4 October 2001, the government announced a review of student funding arrangements involving the DfES, No 10 and the Treasury. Its aims are the:

- simplification of the system, especially in the area of hardship support;
- provision of more-up-front support for students from less well-off backgrounds;
- ensuring that all students have access to sufficient financial support throughout their years of higher education; and
- tackling the problem of debt and perceptions of debt. (DfES 2001b)

At the time of writing, the outcome of the review was unknown, although there has been much media speculation, and numerous proposals (e.g. Piatt and Robson 2001), about the possible changes.

Concerns over the government's ability to reach its target of increasing participation to 50 per cent of young people have influenced these most recent developments. So too have worries that the 1998 Act was failing to meet its stated objectives. To assess how

fair it was, we turn to Blunkett's (2000) vision of the role of student financial support. He asked, what were the components of a modern policy for higher education and its contribution to social cohesion and prosperity?

The first is a system of student support which *both adheres to progressive principles and facilitates access*. The system of full public support for tuition fees and maintenance, to which the Left subscribed for many years, did not meet these criteria. It failed over the decades fundamentally to transform the socio-economic mix of the student intake, whilst at the same time it redistributed resources from ordinary taxpayers to the better off. Higher education has never been 'free' in this sense: it has always been paid for, either directly, as in the case of individuals choosing part-time study, or through general taxation, which until recently subsidized those benefiting from higher education at the expense of those denied access. (para. 69)

The new system of student support balances the contributions made by individuals and the community as a whole. It is more progressive than in the past, and it directs resources to those who need them most. Critically, it secures an income stream for higher education of fee contributions and loan repayments, which underpins expansion and the widening of opportunities. (para. 70)

### **The effects of changes in student financial support policies**

The remainder of this article seeks to assess the extent to which New Labour's 1998 reforms of student support fulfilled Blunkett's vision of its role. It will focus on the progressiveness of the system and whether it facilitated access. However, the need for student funding to provide an income stream for the whole sector has shaped the policies introduced. Indeed, the funding of the sector and the funding of students have been intricately linked, and this drove the student funding agenda and was integral to the marketization of higher education.

This critique calls upon findings from a study, commissioned by the erstwhile Department for Education and Employment, on student income, expenditure, debt and financial hardship, and how these had changed over time (Callender and Kemp, 2000). The survey was based on a nationally representative sample of over 2,000 full-time students studying at 87 Higher Education Institutions in the UK in the 1998/99 academic year on either a designated undergraduate course or on a PGCE/Initial Teacher Training courses.<sup>3</sup> The sample, therefore, includes the first cohort of students affected by the introduction of tuition fees, but excludes those affected by the complete abolition of grants and their replacement with student loans, which came into force in 1999/2000.

*Did the system of student support adhere to progressive principles and was it more progressive than the previous funding system?*

Student funding was heavily criticized for being regressive because it largely benefited the middle classes, the prime consumers of higher education (National Commission on Education, 1993). Yet, despite New Labour's efforts to widen participation, the class composition of the student body has remained practically unchanged since they came to office. In 1998/99 only 13 per cent of all students were drawn from the unskilled social classes (quoted in Watson and Bowden, 2001). Therefore, New Labour's 1998 reforms

have had little impact on the socio-economic mix of the student intake. The bulk of funding in higher education has continued to go to the better off.

The introduction of fees and student loans and the abolition of grants shifted more of the costs of higher education on to individual students. However, the financial burden was not distributed equally among the student population. Low-income students had to shoulder a larger share compared to students from better-off families.

Between 1989 and 2001, the amount of state subsidy going to a low-income student fell by about 35 per cent per student, but by only 2.5 per cent for a student from a high-income family. This was because low-income students relied on student loans, which attracted less state subsidy than the abolished student grants.<sup>4</sup> By contrast, students from high-income families received state support towards their living costs via student loans, whereas before 1990 they had obtained no such support. The value of this support wiped out any losses in state subsidy they experienced following the introduction of tuition fees.

Because of these developments, the parents of high-income students were contributing less towards the costs of their children's higher education. Between 1995/96 and 1998/99, students from social class I experienced a real drop of 40 per cent in regular parental contributions, which they made up by doubling their income from student loans. By contrast, students from social class V saw their income from their parents fall by 18 per cent and their money from student loans rise by 72 per cent (Callender and Kempson, 1996; Callender and Kemp, 2000).

There was, therefore, a major structural contradiction in the 1998 system of student funding. New Labour had made it more 'progressive' by implementing a regressive funding regime. Their policies were regressive because low-income students benefited the least and had to pay relatively more towards the costs of their education.

#### *Did the system of student support facilitate access?*

New Labour has had some success in increasing participation since coming to power, but less success in widening participation. Since 1997, there has been a 1 per cent rise in the number of full-time first degree students entering higher education. This expansion, however, has not necessarily led to a widened participation with increases in under-represented groups, such as those from the lowest social classes, older students, some ethnic minority groups, and students with disabilities.

As discussed, the proportion of students from the lowest social class entering higher education has remained static since 1997. The proportion of students aged over 25 going to university has fallen by about 5 per cent as has the proportion of ethnic minority students – by just over 2 per cent. By contrast, since 1997 the percentage of students with a disability at university increased by over 12 per cent (Watson and Bowden, 2001).

What impact, if any, did the 1998 changes in student financial support have on these developments and on widening participation more generally?

#### *Student loan take-up*

The replacement of grants with student loans and the introduction of tuition fees led to a radical restructuring of students' incomes (Callender and Kemp, 2000). As Figure 1 demonstrates, between 1988/99 and 1998/99 students' income from grants and their

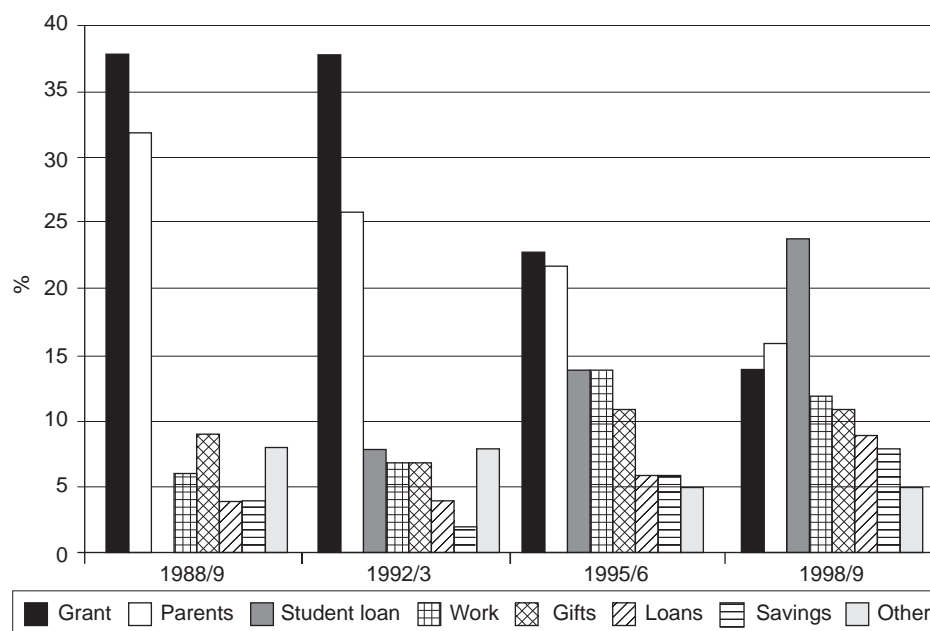


Figure 1. Changes in the composition of students' income 1988/9 to 1998/9 (students under 26 years)  
 Source: Callender and Kemp (2000) *Changing Student Finances*

parents fell while their 'income' from borrowings and savings rose. They borrowed more money to fund their education, and, consequently, were more in debt.

Most of students' borrowings consisted of student loans – so any changes to the loan system were likely to effect student debt. With the phasing out of grants, more students were taking out loans and borrowing larger sums of money. For example, loan take-up rose from 28 per cent in 1990/91 to 74 per cent in 1999/2000 while the average size of the loan increased from £390 in 1990/91 to £2,520 in 1999/2000 (DfEE, 2000b). With their growing value, student loans also formed a larger share of students' total income. For instance, in 1992/93 student loans represented 8 per cent of younger students' total income, by 1998/99 this figure had risen to a quarter. However, not all students were equally reliant on student loans.

According to our multivariate analysis (Callender and Kemp, 2000), the most significant factors associated with student loan take-up in 1998/99 were:

- Family situation – lone parents were the most likely of all students to have taken out a loan.
- Family income – the larger the students' maintenance grants, the greater the chances of them having taken out a loan. Therefore, students from low-income families were more reliant on student loans than those from better-off families.
- Year of study – first-year students were far more likely to have taken out a loan, because they were most affected by the changes in student funding described above.
- Commercial credit – students with large sums of commercial credit, such as bank

overdrafts, were far more likely to have taken out a student loan than students without any such financial commitments. So, once students had taken out a loan, they were more prepared to borrow money from other sources of credit.

The main factors depressing student loan take-up in 1998/99 were:

- Ethnic origin – Asian students were the least likely of all ethnic groups to have taken out a loan. Under half had done so, and they borrowed the smallest amounts. It is not clear why this was so. Some of the explanation related to differing lifestyles and some may have been associated with religious factors. Muslims are not permitted to borrow money upon which interest is paid. This finding highlights the ethnocentric nature of the student funding system, and how it indirectly discriminated against certain student groups.
- Living arrangements – Students living at home with their parents were far less likely to have taken one out compared to students living independently. Clearly, living at home was a major financial strategy – it was one way of saving money (Mori/Unite, 2000).
- Students attending universities in London. This was partly associated with the composition of the student body in London. They were more likely than students elsewhere to live at home and to come from an ethnic minority.

Nearly one in three students who had not taken out a loan claimed that they did not need one. However, 56 per cent of students were without one because of their, or their families', concerns about debt and borrowing. Students from the poorest backgrounds and those most under-represented in the student population were most debt-averse. Their debt-aversion highlighted the contradictory nature of the student funding policies. Ultimately, such groups may be deterred from entry into higher education because of worries about escalating debt, yet they are the very focus of widening participation policies.

#### *Student debt*

In 1998/99, nearly nine out of ten students had outstanding debts compared with just over seven out of ten in 1995/96 (Callender and Kemp, 2000). The move from grants to student loans had resulted in a threefold increase in the level of student debt between 1995/96 and 1998/99 (Callender and Kemp, 2000) and nearly a sixfold increase between 1992 and 2001 (Barclays, 2001). By May 2001, students had debts averaging £5,961 but anticipated owing up to £12,000 by the end of their studies (Barclays, 2001). Without further reforms, low-income students' debt is likely to rise yet further and to equal the average gross annual earnings of full-time manual workers. Will low-income students be able to jump over the psychological barrier of having to borrow more money than their parents earn in a year?

Students who were poor before going to university and those who came from the most disadvantaged backgrounds had ended up accumulating the largest debts. Consequently, the most financially vulnerable groups were lone parents and students from social classes IV and V (Callender and Kemp, 2000). Lone parents borrowed the largest amounts – double the average level of student debt. Nearly all of them had student loans compared with three-quarters of other students. In addition, they were far more likely to have borrowed from other sources of commercial credit and to have been in arrears with

Source of income	Academic year			
	1988/9	1992/3	1995/6	1998/9
	%	%	%	%
Grant	38	38	23	14
Parental contribution	32	26	22	16
Student loan	–	8	14	24
Paid work	6	7	14	12
Gifts	9	7	11	11
Loans	4	4	6	9
Withdrawn savings	4	2	6	8
Other	8	8	4	5
Total income	100	100	100	100

Figure 2. Changes in the composition of students' income 1988/9 to 1998/9 (students under 26 years)  
 Source: Callender and Kemp (2000) *Changing Student Finances*

their bills. They had borrowed twice as much money from these sources compared with other students. The propensity of students from different socio-economic groups to take out a loan was similar, but students from classes IV and V took out the largest loans.

### *Financial hardship*

The financial struggle associated with undergraduate life may act as a deterrent to prospective students, especially in times of a tight labour market. However, being in debt is not the same as living in hardship. Yet, average student incomes were low compared with other households in the general population and were over-represented in the bottom quintile (DSS, 2000). In 1998/99, single childless students under the age of 25, had an average weekly income of £125, well below the average of £170 for similar aged people in the population at large (Callender and Kemp, 2000).

Some 87 per cent of all students indicated that they had experienced some financial worries. Again, lone parents and students from classes IV and V were the most likely to have expressed financial concerns. They had had to economize the most, and juggle their bills, to make ends meet. For example, 61 per cent of lone parents, compared with 30 per cent of married/cohabiting students with children, said their children had had to go without toys, books, presents and entertainment because they could not afford them.

Financial difficulties while studying had made it difficult for some students to participate fully in their course or university life. For example, 37 per cent of them had not bought books they had needed for their course compared with 67 per cent of lone parent students. Some 41 per cent of students were without a computer because they could not afford one.

### *The risks of higher education*

The accumulating evidence suggests that with rising student debt – entering higher education has become an increasingly risky investment decision, especially for low-income students. Research in the United States (Mortenson, 1990; Mumper and Vander Ark, 1991) shows that low-income students are less likely to complete their studies, and



those who do, are less likely to do well in terms of their grades and the jobs they obtain on graduation.

Even when students from low-income backgrounds did take this risk, they were more likely to experience financial difficulties while studying, which was likely to affect their performance and chances of completing their courses successfully. The risk of failure may discourage prospective students from less-advantaged backgrounds from borrowing the large sums of money needed to go to university.

For instance, lone parents and students from classes IV and V were more likely to have experienced the negative effects of financial difficulties on their studies. Some 76 per cent of students from classes IV and V and 77 per cent of lone parents felt that financial difficulties had negatively affected their academic performance, compared with 53 per cent of students from classes I and II and 57 per cent of students in a couple with children. One in three students had thought about dropping out of university, and, of these students, 38 per cent said that this was for financial reasons. The percentage citing this reason rose to 56 per cent for students from classes IV and V, compared with 32 per cent from class I and II backgrounds (Callender and Kemp, 2000).

Government policy to date, has failed to acknowledge the differential risk of going to university for different student groups. Student-loan repayments are based on students' income on graduation but students from low-income families, along with women, those attending certain types of higher education institutions, and those getting low final degree grades, all can expect lower than average wages when they graduate (Naylor, Smith and McKnight, 2001). For instance, students from social classes IV and V earn on average 7 per cent less than graduates from social class I and II (Elias *et al.* 1999). This means it will take them longer to pay off their debts. The prospect of being saddled with huge debts for years after completing their course is likely to affect some of these students' participation.

#### *Minimizing the risks*

Students who engaged in strategies to reduce their reliance on student loans may have restricted their higher education choices. For instance, living with parents was one way students could reduce their debts, and increasing numbers of students opted for this strategy, especially low-income students (Callender and Kemp, 2000). Connor *et al.* (1999) reported in their study that half the applicants to higher education had considered a college/university closer to home but over 60 per cent of students from families with incomes below £25,000 had considered this. This finding was confirmed in Connor's (2001) later study of potential students as well. In Farr's (2001) examination of the distance travelled to higher education between 1994 and 1999, he found that in 1999 students who travelled the shortest average distance to an higher education institution (40 miles and below) were drawn from disadvantaged areas such as 'low rise council' estates, 'council flats', and 'Victorian low-status' housing. Moreover, it was exactly this clustering of areas which had seen the greatest percentage decrease (around 20 per cent), of average distance travelled between 1994 and 1999.

Living at home potentially limited students' choice of institution, the subjects they studied, and may have compromised candidates' chances of success. However, it was students from disadvantaged backgrounds who had their choices constrained in these ways, unlike those from better-off families. For example, Forsyth and Furlong (2001) concluded that the prospects of large debts through student loans resulted in disadvan-

tagged young people trying to *minimize* debt by enrolling in shorter, less-advanced courses at less-prestigious institutions. Knowles (2000) found that lower-income students opted for vocational rather than academic courses. Four per cent of the students who attended the independent school considered applying for an HND, compared with almost half of the sixth form college students. A quarter of students from the independent school reported that they were likely to 'avoid four or five year courses', compared with two-thirds of students who attended the sixth form college. Connors et al (1999) found that almost 60 per cent higher education applicants from families with an income below £25,000 per annum had considered a shorter course in response to the cost of higher education, compared with just over 40 per cent of respondents from higher-income families. So debt-adverse students often opted for financial security at the expense of cultural and human capital by enrolling in less-advanced, vocationally orientated, short courses run at less prestigious institutions near their parental home.

### Conclusions

Arguably, one of the consequences of the expansion of higher education and the end of the binary divide was a higher education sector, which was more stratified than ever before. This could become even more entrenched if a student's social background largely dictates their choice of higher education institution, their qualification aim, and the subjects they study. So one of the unintended consequences of the 1998 changes in student finances could be a sector, which is even more stratified along class and ethnic lines. Such divisions are unlikely to have led to greater social cohesion or justice. Moreover, even New Labour's aspiration of a meritocratic society could be undermined if bright young people choose not to take a degree or fulfil their academic potential purely because of the costs of higher education.

The changes in student financial support policies introduced by New Labour in 1998 were aimed to fund widening participation in higher education. The money raised through tuition fees and saved through the abolition of grants had been designated for this expansion. These policies meant that students took more responsibility for the costs of their education. However, low-income students had to pay relatively more than students from better off families towards the costs of their education. Therefore, the funding system was socially regressive. This was because New Labour had prioritized expansion in higher education at the expense of widening access and increasing the representation of lower-class groups whose loss of state assistance was used to fund higher education expansion across all classes.

The 1998 reforms of student funding, therefore, led to a steep rise in the financial burden of higher education for the poorest groups. With that rise, these students encountered increases in the financial and personal risks associated with going to university. The most disadvantaged students, and the very focus of widening participation policies, experienced the greatest risks, hardship and financial pressures, all of which effected their chances of success. They also left university with the highest debts.

These developments may deter some prospective students from entering higher education. And the 1998 policies mean that in future low-income students are likely to leave university with even higher debts. Given the prevalence of debt aversion amongst low-income groups – prospective students from such backgrounds are the most likely to be deterred from entering higher education. Others may be put off going to university

because of the sheer size of the debts they will accumulate or because of the prospects of financial hardship while studying. This suggests that New Labour's desire to widen participation in higher education is being undermined by the very policies it introduced to further these aims. Let us hope that any new policies announced following the review of student funding will reverse these trends.

### Notes

1 There have been other strategies to widen participation such as those funded by HEFCE and initiated by HEIs, but these are not the focus of this paper.

2 Dearing recommended charging tuition fees on a flat rate basis but maintaining grants for living expenses for those most in need.

3 Our sample also included 750 part-timers. Face-to-face interviews were conducted between April and June 1999 and students were asked to complete a diary of their expenditure for one week following their interview.

4 According to Barr and Falkingham (1996), student loans cost the government anything between 30–50 per cent of their face value.

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